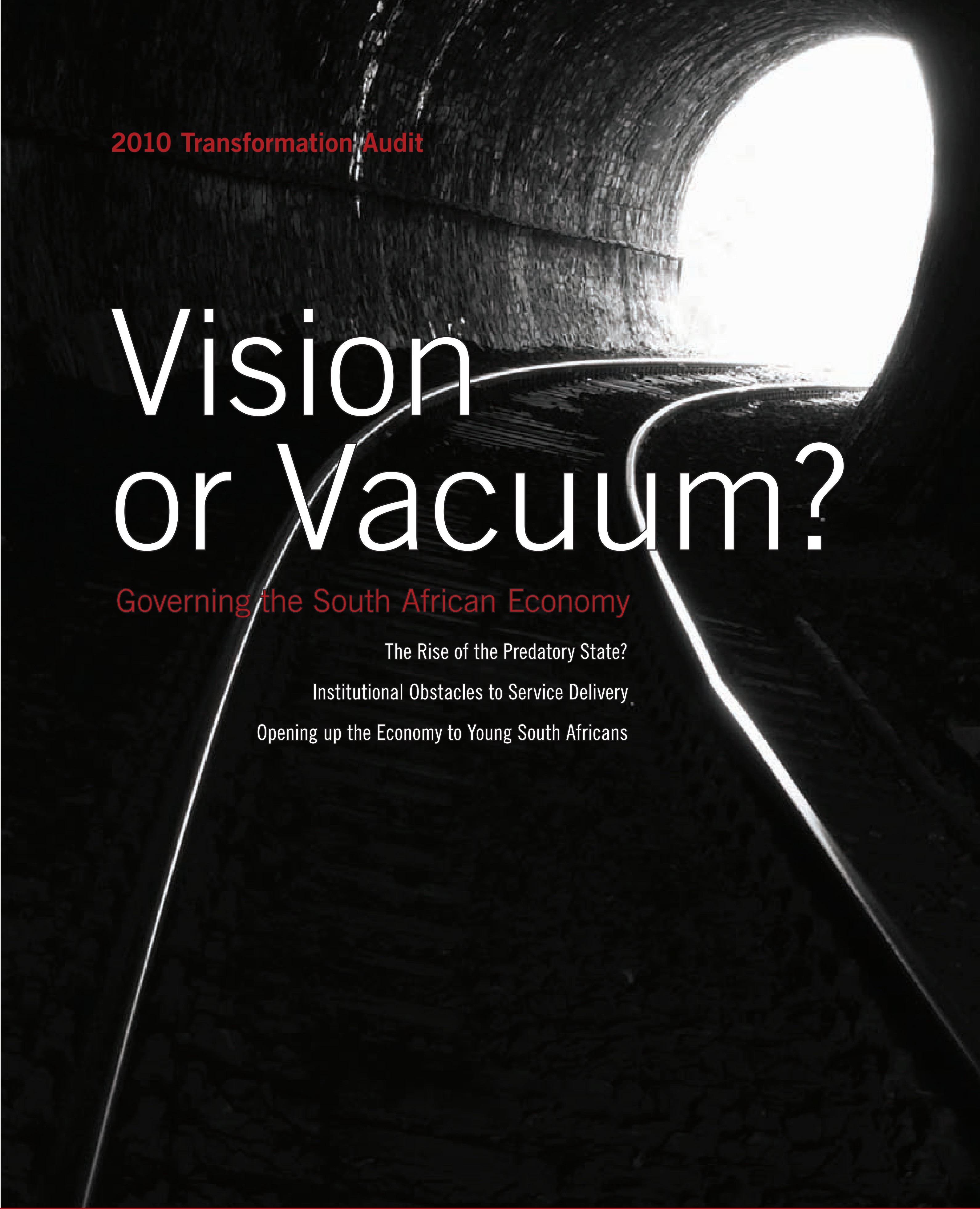

2010 Transformation Audit

Vision or Vacuum?

Governing the South African Economy

The Rise of the Predatory State?

Institutional Obstacles to Service Delivery

Opening up the Economy to Young South Africans

AN ANNUAL PUBLICATION OF THE INSTITUTE FOR JUSTICE AND RECONCILIATION

Vision or Vacuum?

Governing the South African Economy

Edited by Jan Hofmeyr

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Orders to be placed with either Blue Weaver Marketing and Distribution
Tel: +27 (21) 701 4477
Fax:+27 (21) 701 7302
E-mail: orders@bluweaver.co.za
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Tel: +27 (21) 763 7137
E-mail: ijr@ijr.org.za

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CONTRIBUTORS

Salim Akoojee is the Research and Development Manager at MERSETA, the Sectoral Training Authority for Manufacturing, Engineering and Related Services.

Graeme Bloch is a Visiting Adjunct Professor at the School of Public and Development Management at the University of the Witwatersrand, and author of *The toxic mix: What is wrong with South Africa's schools and how to fix it*.

Justine Burns is an Associate Professor at the School of Economics, University of Cape Town, and a Research Associate of the Southern African Labour and Development Research Unit (SALDRU).

Daniela Casale is a Lecturer at the School of Development Studies, University of KwaZulu-Natal.

Margaret Chitiga is Executive Director, Economic Performance and Development Unit, Human Sciences Research Council.

Bernard Decaluwé is a Professor in Economics at Laval University, Canada.

Nancy Dubosse is Head of Research at the Institute for Democracy in Africa's Economic Governance Programme.

Lawrence Edwards is an Associate Professor at the School of Economics, University of Cape Town.

Anthony Gewer is the Executive Manager of Education Development at JET Education Services.

Ebrahim-Khalil Hassen is a public policy analyst and Editor of *Zapreneur*.

Thomas Koelble is a Professor in Business Administration at the University of Cape Town's Graduate School of Business.

Edward LiPuma is a Professor in Anthropology at the University of Miami.

Ramos Mabugu is Head of Research and Policy at the Financial and Fiscal Commission of South Africa.

Helene Maisonnave is a Researcher in Environmental and Climate Policy Economics for the European Commission Joint Research Centre.

Eusebius McKaiser is an Associate at the University of the Witwatersrand's Centre for Ethics; he lectures in philosophy and hosts a weekly politics and ethics talk show on Talk Radio 702.

Karl Pauw is based in Lilongwe and is a Postdoctoral Fellow at the International Food Policy Research Institute.

Dorrit Posel is a Professor at the School of Development Studies, University of KwaZulu-Natal.

Neil Rankin is Director of the African Micro-Economic Research Umbrella (AMERU) at the School of Economics and Business Sciences, University of the Witwatersrand.

Gareth Roberts is a Research Associate at the African Micro-Economic Research Umbrella (AMERU) in the School of Economics and Business Sciences, University of the Witwatersrand.

Véronique Robichaud is a researcher and lecturer at HEC Montreal, Canada. She also works as an independent economic consultant for several international agencies.

Volker Schoer is a Senior Research Associate at the African Micro-Economic Research Umbrella (AMERU) in the School of Economics and Business Sciences at the University of the Witwatersrand.

Debra Shepherd is a PhD student at the University of Stellenbosch and the Vrije Universiteit van Amsterdam.

Servaas van der Berg is a Professor in Economics at the University of Stellenbosch.

Dieter von Fintel is a Lecturer in Economics at the University of Stellenbosch.

ACRONYMS AND ABBREVIATIONS

BAU	business as usual
CGE	computable general equilibrium
COGTA	Department of Co-operative Governance and Traditional Affairs
COSAS	Congress of South African Students
COSATU	Congress of South African Trade Unions
CSG	child-support grant
DHET	Department of Higher Education and Training
DPLG	Department of Provincial and Local Government
FET	further education and training
GEAR	Growth, Employment and Redistribution
HR	human rights
ICESCR	International Covenant on Economic, Social and Cultural Rights
IDP	integrated development plan
LiEP	Language-in-Education Policy
MDG	Millennium Development Goal
MFMA	Municipal Finance Management Act 56 of 2003
NATED	National Technical Education
NCV	National Certificate (Vocational)
NIDS	National Income Dynamics Study
NSDS	National Skills Development Strategy
OBE	outcomes-based education
OECD	Organisation for Economic Co-operation and Development
PFMA	Public Finance Management Act 29 of 1999
RIDP	Regional Industrial Development Programme
SADTU	South African Democratic Teachers' Union
SALDRU	Southern Africa Labour and Development Research Unit
SAYPS	South African Young Persons Survey
SETA	Sector Education and Training Authority
SMMEs	small, medium and micro enterprises
UNESCO	United Nations Educational, Scientific and Cultural Organisation
UNOHCHR	United Nations Office of the High Commissioner for Human Rights
VET	vocational education and training

PREFACE

South Africa's successful hosting of the 2010 FIFA Soccer World Cup has become a symbol of the country's burgeoning capacity, its unity and its reconciliation process, as much as of its challenges and shortcomings, not least in terms of social justice. The country's considerable potential became clear but, ironically, so did the extent to which we are able to (but do not) support our most vulnerable citizens.

For a month of unprecedented euphoria we could all see ourselves – white and black, rich and poor – in the mirror that was held up by global attention. In it, we saw one nation with a warm heart that embraced strangers, that exuded national pride and brimmed over with irrepressible energy. For a brief moment we could see and celebrate ourselves for the whole that we are, and not the segments that we compartmentalise ourselves into for most of the time. This was our moment of glory. If only we could sustain the momentum.

Six months later, at the time of writing, it seems as if much of the glory has faded. Given the deep historical schisms in our society, it was probably wishful thinking to believe that a one-month event would be sufficient to elevate us out of centuries of segregated reality. Realistically, the World Cup was never going to do this, but it did offer a much-needed building block upon which we can construct our future. Particularly at this troubling time, when millions are experiencing increasing hardship in a sluggish economy, there is a need for us to find ways to look, collectively, beyond the present and ask how we can extend that which others saw in us during the World Cup to each other. As a nation, we had a vision in 1994 of a just, caring, non-racist and non-sexist society. How alive is this today? Are we a nation with a vision, or are we muddling on in a vacuum?

There is sufficient goodwill across society to make this country work – from struggling municipalities, to education institutions, to infrastructure – if everyone is made to feel that they have a role to play. Sadly, we are witnessing recurring instances of government bureaucrats who are not covering themselves in glory. When reading about 'tenderpreneurship', about corruption, about levels of incompetence in local government and, sometimes, about indifferent national ministers, one even wonders whether, amongst some of our leaders, the commitment to the larger goals of reconciliation and justice have not made way for an attitude of making hay while the sun shines.

2011 will be an important year. Hopefully, we will be both more forthright and more thoughtful in our debates about history and identity. The crudeness of race-based debates during 2010 has been of particular concern to the Institute for Justice and Reconciliation. Significantly, though, with the recent release of the government's New Growth Path document, national leadership will be in the spotlight like never before as we seek reassurance in firm and clear decisions about economic policy. From all corners, citizens will anticipate statements affirming their right not only to live in this beautiful country, but also to help make it work. This publication is our contribution towards the promotion of public engagement on greater social justice.

Once again, the Institute would like extend its sincere gratitude to its core funders – the Royal Embassy of the Kingdom of the Netherlands and the Swedish International Development Co-operation Agency (SIDA) – for their generous support to this and other projects of the Institute.

Fanie du Toit
Executive Director, Institute for Justice and Reconciliation

INTRODUCTION

VISION OR VACUUM?

Jan Hofmeyr

In its present form, the South African economy has limited potential to propel the country towards its longer-term developmental targets. Notwithstanding the commendable GDP growth levels achieved during the first decade of the new millennium, consensus – a notoriously rare phenomenon in South African economic policy discourse – now appears to be converging around the idea that the country has underperformed in terms of what it realistically could and should have achieved in improving the livelihoods of its citizens. This suggests that the retention of the status quo is likely to lead us on a road muddling to nowhere.

The findings of a contribution to the 2009 Transformation Audit by Murray Leibbrandt, Ingrid Woolard and Hayley McEwan underscore this. Their analysis of the National Income Dynamics Study (NIDS) data points to a marginal decline in the number of South Africans living below the poverty line (R515 per capita per month in 2008 rand) from 56 per cent in 1993 to 54 per cent 2008. Most sobering about this statistic, however, is the fact that when viewed in real numbers, there has been an actual increase of 4 million citizens (from 22 to 26 million) who find themselves below this level. To put this in perspective, the number roughly matches the number of jobs that were created between 1995 and 2008. In addition, their research points to a surge in social inequality, with the South African Gini coefficient rising from 0.66 in 1993 to 0.70 in 2008.

The data are unequivocal about the need for reflection and adjustment. If ever there was uncertainty about the extent to which the current economic configuration renders the country vulnerable, we need not look further than the spill-over effect that the recent global economic crisis had on the South African economy. While the domestic recession was brief, the contraction in GDP growth more muted and rescue measures less pronounced than elsewhere, the crisis brutally exposed some of the country's major structural shortcomings. From a clinical macroeconomic point of view, the indicators suggest that the damage was mild in comparison to that experienced by many of South Africa's peers; from a human development perspective, however, the recession's impact was disastrous, with setbacks that will take a long time to reverse.

Nowhere was the impact more manifest than within the labour market. During 2009, the country lost close to a million jobs. Whereas economic output dropped by about 2 per cent during this period, employment levels plummeted by 9 per cent. This was disproportionate and out of step with the performance of comparative states, which saw much larger GDP drops, but labour markets that were far more resilient in weathering the circumstances. Yet, even now that the country has returned to positive growth figures (estimates for 2010 GDP growth are around 3 per cent), the economy continues to shed jobs.

Since the majority of job losses came at the lower end of the labour market, there will be a profound impact on the livelihoods of the millions who, directly and indirectly, have been dependent on the former breadwinners. The ripple effects of increased poverty stretch beyond the absence of a proper meal on the table. Poor nutrition, for example, has implications for the nation's health and certainly will exert additional pressure on an overburdened public health system. Equally, malnourished learners will be unable to achieve in an education system that is already underperforming. The impact will be not only on their life chances but, by extension, also on the skills and expertise that this particular cohort could have injected into the South African economy. While the government has been able to develop an elaborate support net in the form of grants and pensions to assist the poor, the slow pace of employment creation and the reality of demographic growth are stretching this dispensation to the limit. Global shocks, like the one that the country experienced recently, have placed additional and excessive strain on the state. The figures relating to the current rate of expansion of social assistance tell an unambiguous tale – it is simply unsustainable.

The recession has highlighted just how overexposed South Africa is to the long-term negative effects of temporal ruptures in the global economy. With dark clouds gathering in 'Euroland' and a post-recession economy struggling to gain traction in the United States, a scenario where things may still get worse globally before they get better cannot be dismissed. As the most recent Labour Force Survey data confirm, even if conditions remain stable at present levels, our economy will continue to bleed jobs.

Successive editions of this publication have pointed to some of the underlying causes that underpin this acute vulnerability. Protracted marginalisation over centuries provides the backdrop against which the democratic state has to intervene, regulate and guide society away from inherited structural poverty and inequality, which remain highly racialised. Yet, apart from the emergence of a proportionally small black middle and upper class, a total mismatch between the skills needs of the country's economy and the oversupply of largely low-skilled and unskilled labour continues to reproduce and reinforce these social realities.

Since South Africa's economic expansion of the past decade was driven largely by domestic consumption, strong growth occurred in the retail, finance and telecommunications sectors of the economy. While employment creation accelerated significantly during this period, most new jobs were created in retail and the security industry, and, consequently, were of a tenuous and low-paying nature. As a result, these workers were amongst those most highly exposed to the whims of the global markets, and were the first to be retrenched. Despite robust growth in the finance and telecommunications sectors, their yield in terms of employment creation remained limited. Industries with higher potential for employment creation, such as manufacturing, agriculture and mining, became some of the biggest casualties of the country's skewed emphasis on consumption-led growth.

With the recession's impact for all to see, accusations now abound about the reasons why employment was haemorrhaged and the human security of millions was compromised to the extent that it was during, and in the aftermath of, the recession. Those on the left are keen to point to what they regard as the neo-liberal underpinnings of the government's Growth, Employment and Redistribution Strategy (GEAR), which, in their opinion, suffocated investment in physical infrastructure and human resources. GEAR supporters, in turn, have blamed the half-hearted implementation of the strategy, resulting from its loss of political currency during the second term of the Mbeki presidency. The same contested economic space has also given the nationalisation debate a new lease on life. Initially introduced in highly absolutist and inflexible terms by its major sponsor, the ANC Youth League, the debate shifted during the second half of the year towards a much more productive public discourse on the state's role in the economy.

While these frank debates are essential in making sense of the present and shaping the future, millions face existential anxiety as a result of the economic slowdown, and their urgent needs cannot be held ransom to intellectual posturing. The situation requires urgency as far as the debates' transformation into a coherent national vision – supported by clearly articulated policies – is concerned. As Neva Seidman Makgetla correctly observed recently, a national vision of a non-racist, non-sexist, prosperous society has already existed since the democratic transition, but it needs to be infused with new energy.[1] Obviously, commitment and consensus between policy-makers, bureaucrats and social stakeholders, such as labour and business, will be essential for implementation. It is even more critical that they make practical sense and offer concrete, achievable objectives that can inspire ordinary South Africans to collective action. Most of all, there is a need for hope in the midst of adversity. They must offer the promise of something better to come. In its absence, we are likely to see the continuation of sporadic violence in communities that have lost all faith in democratic institutions to provide them with economic and physical security.

The evidence suggests that the public mood is gloomy. A cursory look at data from the IJR's annual national SA Reconciliation Barometer Survey shows that in 2010 South Africans were less optimistic about their personal economic prospects than seven years ago in 2003, when the first round of the survey was conducted. In 2003, 40 per cent of respondents sensed an improvement in their personal living conditions, compared to the year before, while 41 per cent felt that their personal financial situation had improved over the same period. In 2010, the corresponding figures for these measurements stood at 35 per cent and 32 per cent respectively. Forty-one per cent felt that there was a real possibility that they may find themselves unemployed by 2011. These statistics point to a heightened sense of economic insecurity that has developed in recent years amongst the general populace. This is significant, because when asked about the major source of division amongst South Africans, those who identified the 'gap between rich and poor' made up the largest response category. This ties in with Seidman Makgetla's view, expressed in the same article, that inequality affects social cohesion and, as a result, 'makes it far more difficult to agree on national priorities and to stick to long-term developmental policies'.

There should be no doubt that we require a profound change of course, not only for the sake of material improvement of livelihoods, but also because our highly unequal expectations and vested interests hold South Africa back from embarking on the most optimal and inclusive course for sustainable development.

In 2009, in the wake of the dramatic internal shake-up of the ANC at Polokwane, the new administration of Jacob Zuma was voted into office on a ticket for such change. On the face of it, renewal is evident. Not only did the government become more inclusive in terms of representation of the alliance partners that constitute it, but governance infrastructure itself underwent sweeping change with the notable additions of the Ministry of Economic Development and the Ministry for Performance Monitoring, Evaluation and Administration, as well provision for a National Planning Commission (NPC). These entities, together with the Department of Trade and Industry, will become pivotal to the structural transformation of the economy. Yet, the ministries and their collective architecture are new – the inaugural meeting of the NPC took place in May this year – and inevitably a degree of uncertainty still exists about the exact role that each will play, and how they will co-operate in terms of shaping and monitoring the implementation of economic policy.

During 2010, several strategic designs, such as the Industrial Policy Framework and the National Human Resource Strategy, were launched. To some extent, they hinted at how the new administration sees society and what it regards as key priorities. Yet, more clarity is needed on the broader vision and developmental targets within which they are located. What kind of economy should we aspire to, which are the developmental targets that we need to meet and, more concretely, how will they be achieved and where will the buck stop in terms of accountability? In order to create the momentum for change in the present, it is important to understand the bigger picture and how new designs and policies fit into the longer-term perspective. Much of the uncertainty around the new administration's economic course may have been due to the confluence of circumstances during its first year in office. The Zuma administration had to respond without delay to a global crisis, while it was expected at the same time to articulate its longer-term views on the economy.

During November 2010, Ebrahim Patel's Department of Economic Development released its long-awaited growth strategy, titled The New Growth Path (NGP). The document provides a frank assessment of the major challenges that face the economy, proposes a series of strategies to address these, and sets specific targets for their achievement. One of its core strengths is that it provides a thorough diagnosis of the economy's structural weaknesses, by highlighting the central imperatives for employment creation, better quality jobs and the need to promote particular sectors that will stimulate labour-absorbing growth. However, the measures to achieve these goals have been received with reservation by both labour and organised business. Maybe, this was to be expected from a design that could not afford to completely alienate either side. It is, moreover, quite likely that over time different constituencies will have the opportunity to make inputs that will hone the strategy.

Vision cannot emerge from a vacuum and, arguably, the major significance of the NGP is that for the first time in years it provides a comprehensive longer-term strategy document that can serve as a reference point for more focused debate on the creation of a fairer economic dispensation. The new momentum that it injects needs to be sustained. From key social stakeholders, it will demand constructive engagement with a view to promoting the greater good of the nation. From the government, it will require the enhancement of the steering and implementation capacity of the state, given the central role that the GNP document envisages for it in this regard. Much will hinge on this. It will require strategy, but also the eradication of inefficiency and corruption – in short, effective governance.

CHAPTER OVERVIEW

This year's Transformation Audit uses the above perspective as its lens to look at the publication's four traditional focal areas. It asserts the need for a unifying vision and the need to keep it alive through governance that steers a course towards the achievement of this vision. It does so mindful of the fact that the global economic crisis may be far from over, with several European states at the time of writing plunged into, or on the brink of, economic turmoil. While most contributions focus on questions of governance in their respective areas, some also take stock of the impact that the crisis has had on the economy thus far.

Governance and the economy

In what must be one of the most scathing attacks to date on their alliance partners in the government, COSATU's General Secretary, Zwelinzima Vavi, remarked during the year that South Africa was turning into a predatory state, governed by a predatory elite, seeking its own interests before those of the electorate that mandated them with power. Vavi's remark, made in a frustrated response to excessive expenditure by government officials, strikes at the heart of the issue of the nature and quality of governance. To what extent is there truth in Vavi's remarks? **Eusebius McKaiser** interrogates this controversial charge in the opening article of this year's publication. He contends that, given its significant developmental outputs since 1994, this may not be the most accurate characterisation of the state at present, but feels that Vavi's remarks do serve to focus attention on an increasing lack of ethical judgement in the government. To reverse this trend, he proposes a number of precautionary measures, but argues that ultimately the justice system ought to impose much harsher sentences on offenders to serve as a deterrent to the abuse of scarce public resources.

The sphere of local government remains notorious for the indiscretion with which such resources have been squandered. **Thomas Koelble** and **Edward LiPuma**, in their article on the service delivery crisis that is facing two-thirds of South African municipalities, point to basic institutional shortcomings and a dearth of critical skills as being at the core of weak delivery. They note that better enforcement of the rules and regulations concerning the role of public and elected officials should be pursued through a stronger emphasis on accountability and transparent decision-making. Most importantly, though, skilled workers would be required to drive social delivery with improved efficiency. This would be critical to ensuring that the historically marginalised millions experience the full benefits of democratic governance at the local level.

It has been contended in previous editions of this publication that the way in which governance is executed is just as important as its outcomes. **Nancy Dubosse**, in the final article of the chapter, examines South Africa's developmental policy against the human rights approach to governance. The study examines South Africa's borrowing policies and debt management by focusing on municipalities, in order to determine whether these processes meet the standards of participation, transparency and equality laid out in international agreements. Ultimately, she shows that there is currently a disappointing discrepancy between the rules and the reality on the ground. Citizens do not have the capacity to participate in the framework created to integrate them into planning and budgetary exercises. Moreover, municipalities' non-compliance with reporting requirements has led to low levels of transparency. The human rights approach assumes that, in the realisation of rights (and in endeavouring to fulfil, protect and promote them), the process matters as much as the outcome. Meeting development goals in a context of extreme poverty and inequality, however, requires monumental financial undertakings, which require prudent resource mobilisation and governance. Therefore, the government must engage in internal resource mobilisation, which requires proper consideration of the sustainability of public indebtedness.

The labour market

It is common cause that South Africa's unacceptably high unemployment rate presents the single biggest obstacle to the creation of greater prosperity for a broad cross-section of citizens. For this reason, employment creation constitutes one of the cornerstones of the New Growth Path. In their contribution to this chapter, **Justine Burns**, **Kalie Pauw** and **Lawrence Edwards** present their research on wage subsidies as a measure to combat youth unemployment. This policy option has been highly unpopular with the government's left-wing alliance partners and, therefore, does not feature in its new long-term economic design. This analysis, which takes cognisance of international experience in the introduction of wage subsidies, nevertheless, merits attention, because it does not prescribe this measure as a panacea, but rather as a supportive intervention that can produce results in combination with other strategies. Core to such an approach, they argue, should be the improvement of South Africa's education and skills-development sector. In the absence of first-time job seekers with the cognitive abilities to learn and adapt quickly, the required inputs in their training and losses in productivity may not be adequately offset by a subsidy.

The focus on youth employment continues in the following contribution by **Volker Schoer**, **Neil Rankin** and **Gareth Roberts.** The emphasis of their research falls on job-matching processes, or, more specifically, the factors that influence the likelihood of young South Africans finding employment through a particular search/recruitment method. At the outset, they assert that South Africa's labour market conditions allow firms to impose their recruitment channels on job-seekers; consequently, finding a job in a particular sector is determined largely by the channels through which recruiters communicate and, by implication, access to these channels. They find that young Africans are at a distinct disadvantage when it comes to access to particular channels, such as those that require a certain education level, or were referrals through social networks are necessary. As a result of the difficulty that they experience in these channels, they are likely to get discouraged more easily by the job-search process. Ultimately, they find that large firms provide the best opportunity of employment, since they are better able to carry the overhead costs of allocating resources to a dedicated recruitment department or person, and, by extension, to conduct the type of screening process in which a broader range of job-seekers can compete.

Daniela Casale and **Dorrit Posel,** in the final contribution to this chapter, report on their research that has focused on the link between English-language proficiency and earnings among African adults in South Africa. By making use of National Income Dynamics Survey data, they show that there may be a significant earnings advantage to being proficient in English in the workplace. They do, however, caution that there is extensive literature suggesting that children should first master reading and writing skills in their home language. This is supported by their own findings, which show that African adults who are proficient in their home language are far more likely to be proficient in English as well. Ultimately, raising African youths' employability through the acquisition of English-language skills is a far more complex matter than previously assumed.

Education and skills development

The importance of improving South Africa's education and skills infrastructure is, once again, a common thread that runs through this publication. But are we making any headway? **Graeme Bloch**, in the first contribution to this chapter, provides a critical overview of the current state of education, by making specific reference to the impact that the protracted public service strike in 2010 had on teaching and, ultimately, what this means for end-of-year results. According to Bloch, the South African education system continues to find itself in crisis, and the past year's events have not helped to change this status. The politics of present-day education, he contends, do not prioritise learning and learners; as such, South Africa once again stands accused of failing to give another generation access to the opportunities that a democratic South Africa is supposed to offer. Bloch concludes that if our development strategies are so strongly premised on the link between education and the alleviation of poverty and inequality, it is difficult to understand why there is not more urgency in repairing the education system.

Poor-quality education in large pockets of the public schooling system does make many learners who graduate from these institutions unemployable. This further exacerbates the problem of youth unemployment, which is discussed in detail in the previous chapter. In his contribution, **Anthony Gewer** looks at the role that FET (Further Education and Training) colleges can play in terms of improving the employment possibilities of the almost 2.8 million young South Africans who are not employed or in an education or training institution. Although FETs were relegated to the periphery of the education and training system over the past 16 years, their recent elevation and mainstreaming within the emerging post-school education landscape positions them to make a very significant contribution in this regard. Because their primary goal is to make young people, who are out of school and out of work, employable, Gewer proposes that the FET mandate not only should include the provision of the necessary skills to compete for employment opportunities, but also should address the key obstacles that keep the youth from entering the labour market.

In periods of economic stress, where profitability is threatened, skills development often becomes one of the first casualties in companies' attempts to trim expenses. In South Africa, the consequences of such action stretch beyond the firm and have an impact on the national imperative for training and development to narrow historical inequalities. In the final contribution to this chapter, **Salim Akoojee** assesses the ramifications of the recession (and the sluggish growth that followed) for national and firm-level skills-development initiatives. Based on survey research and interviews, Akoojee finds that, as profitability declined, firm-level initiatives were either shelved or scaled down as a cost-saving measure. Where hiring took place, it was predominantly in the appointment of candidates already possessing the required skills. The article concludes that the responses of the government and industry have not managed to engage meaningfully with key national prerogatives for workplace transformation, such as equity and skills.

Poverty and inequality

When South Africans talk about the role of employment in addressing poverty and inequality, most discussions tend to centre on the promotion of particular industries that can absorb labour. Consequently, much attention is paid to the creation of circumstances that are most conducive to attracting such investment. While the government encourages the growth of small, medium and micro enterprises (SMMEs), the articulated strategies in this regard are far less detailed than when it comes to the promotion of investment by large employers. In the first article of this section, **Ebrahim-Khalil Hassen** argues that present strategies to address poverty and inequality are bound to fail if they do not properly recognise the role of individual agency, through the enhancement of opportunity in the economy. Long-term dependence on redistribution is a dead-end street. To broaden access to opportunity, entrenched power relations first have to be reversed. Towards this end, he proposes greater emphasis on widening economic participation, through the introduction of measures into public policy that encourage asset-building. Hassen suggests four asset-based policies to widen the range of opportunities: employment guarantees; small business start-ups; savings accounts; and social-security reforms. To date, these policies have been largely absent from South Africa's development discourse. Yet, in the context of a growing economy, supported by economic policy, these strategies provide potential mechanisms for poor households to attain formal participation in the economy.

In the final contribution to this publication, **Margaret Chitiga** and her colleagues look at one of the most acute, but underreported, facets of poverty in South Africa, namely child poverty. The focus of their research falls, in particular, on the impact that the global economic crisis has had in this regard. By tracing the channels through which the crisis was transmitted to households, and by assessing the magnitude of its impact, the study demonstrates that the crisis worsened household poverty directly through a reduction in employment, which translated into declines in household income. However, it did not completely reverse the positive impact of the Child Support Grant on the lives of children from marginalised backgrounds. Indeed, the study shows that in the absence of these grants the effect could have been far worse. Yet, it is evident that the economic crisis did have a significant impact on monetary poverty in South Africa, and that it could further affect child poverty in the future, depending on the extent to which the global economy recovers or not.

Vision or vacuum?

Although the global recession has come and gone, the world economy still finds itself in crisis at the end of 2010. As the United States returns to growth in the wake of a sub-prime crisis, which contaminated the rest of the global economy, the deepening sovereign debt crisis in the European Union is likely to prolong the sluggish global recovery.

This unfriendly environment is far from conducive to the promotion of South Africa's developmental agenda. Growth (and high levels thereof over a protracted period) is crucial to elevate larger sections of the population from poverty and to narrow an unacceptably high level of social inequality. The 2009 Transformation Audit, with the theme *Recession and Recovery*, provided an initial assessment of the country's brief recession in 2009, and offered perspectives on the prospects for recovery. The Audit predicted, amongst other things, that a recovery in the labour market would be subdued, if it occurred at all. We now know that the economy shed around 1.1 million workers between the fourth quarter of 2008 and the second quarter of 2010. Since then, the trend has continued unabated, with devastating effects on the livelihoods of the most vulnerable households. Compared to the more modest impact on the labour markets of its peers, the extent of job losses in South Africa has been disproportionate and should be of great concern.

This points to structural characteristics of the South African economy that make it more vulnerable to temporal shocks, which demands critical reflection on the current composition of the economy, its governance and longer-term capacity to create a more just and equitable society. The Audit's 2010 theme – *Vision or Vacuum?* – poses important questions in this regard. While acknowledging the constraints inherent in the prevailing global environment, this edition asks what the country can do to sustain its developmental achievements amidst crisis.

We hope that, as in previous years, the contributions to this year's Transformation Audit serve to stimulate debate on where South Africa's finds itself at present and, critically, where the country should be heading to over the next decade.

NOTES

1 Seidman Makgetla, N (2010) Veering off jobless growth path. *Mail & Guardian*, 6 December 2010, www.mg.co.za/article/2010-12-06-veering-off-jobless-growth-path

Chapter 1
Governance and the economy

"Public servants and elected officials in South Africa need to start realising that we expect them to display ethical excellence. We do not expect them merely to comply with the laws of the land."

overview

In the first contribution to this year's Transformation Audit, **Eusebius McKaiser** interrogates the controversial charge, made earlier this year by COSATU's general secretary, Zwelinzima Vavi, that South Africa has become a 'predatory' state. While noting that this may not be the most apt characterisation of the South African state, McKaiser does feel that the discourse has drawn attention to grave problems that need to be addressed with more urgency. The article demonstrates that although there may be a deepening, ethical crisis within the state, given scandals relating to excessive expenditure on luxuries by government officials, an overview of its developmental outputs points to the improvement of the livelihoods of millions. Thus, on the balance of facts, it would be premature at this stage to label it in this way. To counter the corrosive effects of some of the questionable practices that he has highlighted, he proposes a number of measures to protect the moral integrity and efficiency of the state. These include role-modelling and clearer ethical guidelines, but ultimately there is a need to come down much harder on offenders in order to hold them to account for wastage of scarce public resources.

The following article, by **Thomas Koelble** and **Edward LiPuma**, sheds light on the service delivery crisis that is facing two-thirds of South African municipalities. Their study points to a series of institutional shortcomings, which include: incoherence in national policy towards rural and urban development; a lack of enforcement of financial controls and competencies; and a critical dearth of skills in areas that are key to efficient and sustainable delivery. They emphasise that the minimal requirement for the turnaround of local government would be more assertive enforcement of the rules and regulations concerning the role of public and elected officials to ensure not only service delivery, but accountability and transparent decision-making as well. Critically, though, such enforcement of oversight responsibility would amount to nothing if little or no capacity exists to execute the local government's developmental mandate. They, therefore, argue for a much stronger prioritisation of skills acquisition to alleviate critical shortages that, in their opinion, have kept millions from experiencing the full benefits of democratic governance at the local level.

The final article in this chapter, by **Nancy Dubosse**, examines South Africa's developmental policy from a human rights perspective. Such an approach assumes that the primary goal of government is the realisation of rights and that in endeavouring to fulfil, protect and promote them, the process matters as much as the outcome. Meeting development goals in a context of extreme poverty and inequality, however, requires monumental financial undertakings, which require prudent resource mobilisation and governance. Thus, the government must engage in internal resource mobilisation, which often requires proper consideration of the sustainability of public indebtedness. The study examines South Africa's borrowing policies and debt management by focusing on municipalities, in order to determine if these processes meet the standards of participation, transparency and equality laid out in international agreements. Ultimately, she shows that there is currently a disappointing discrepancy between rules and the reality on the ground. Citizens do not have the capacity to participate in the framework created to integrate them into planning and budgetary exercises. Moreover, municipalities' non-compliance with reporting requirements has led to low levels of transparency.

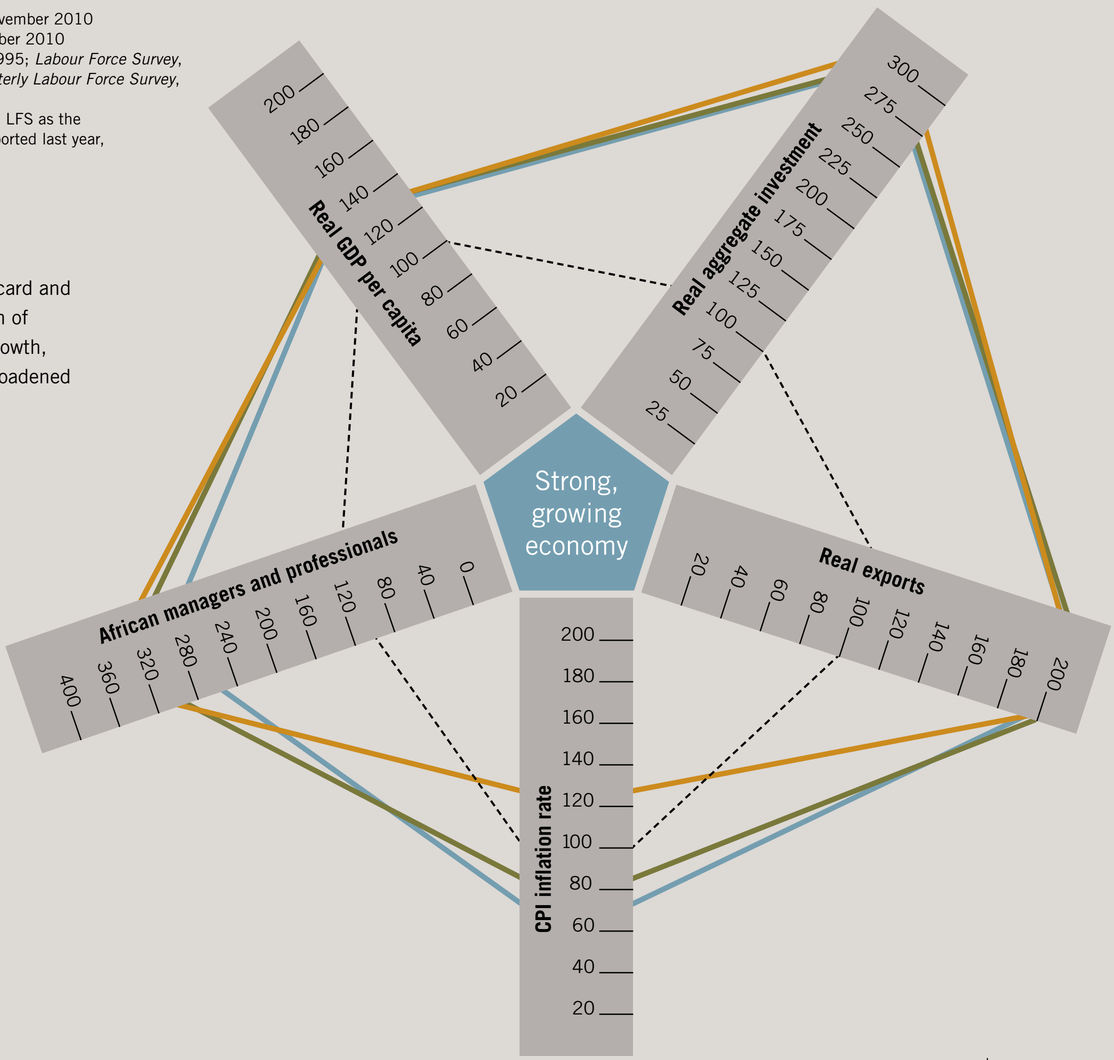
Economic performance scorecard

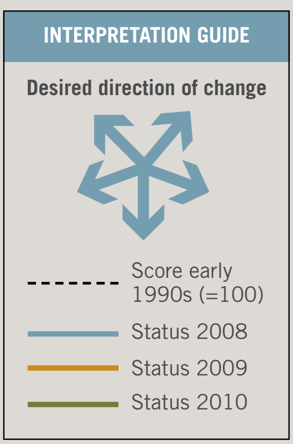
Transformation goal	A stable, broad-based economy, growing at a rate that creates wealth, given population growth					
Desired outcome	**Indicator**	**Status 1990–1994**	**Status 2008**	**Status 2009**	**Status 2010**	**Positive development**
Growth	Real GDP per capita[1] (Constant 2005 prices)	R28 287 (Ave. 1992–1994)	R36 575 (2007)	R37 269 (2008)	R36 136 (2009)	↓
Stability	CPI inflation rate[2]	9.3% (1994)	7.2% (2007)	11.5% (2008)	7.1% (2009)	↑
Ability to access markets	Real exports[1] (Constant 2005 prices)	R250 202m (Ave. 1992–1994)	R489 611m (2007)	R501 189m (2008)	R403 246m (2009)	↓
Broadened base	Managers and professionals who are African[3]	216 772 (1995)	549 621* (2007)	651 864 (2008)	626 586 (2009)	↓
Investment	Real aggregate investment[1] (Constant 2005 prices)	R133 218m (Ave. 1992–1994)	R357 505m (2007)	R369 638m (2008)	R348 481m (2009)	↓

Sources:
1. www.reservebank.co.za, accessed 1 November 2010
2. www.statssa.gov.za, accessed 1 November 2010
3. Stats SA, *October Household Survey* 1995; *Labour Force Survey*, September 2006 & March 2007; *Quarterly Labour Force Survey*, September 2008 & September 2009

Note: *This figure is from the March 2007 LFS as the September 2007 LFS figure, which we reported last year, was implausibly high

The Economic Performance Scorecard and Star provide a snapshot impression of changes in the key indicators of growth, stability, competitiveness and a broadened base for the economy.





opinion

GUARDIAN OR PREDATOR? THE STATE OF THE SOUTH AFRICAN STATE

Eusebius McKaiser

INTRODUCTION

South Africa is not a predatory state. South Africa is also not being governed by a predatory elite.[1]

Any intellectually serious inquiry into the nature of a state requires the use of terminology that has been conceptualised properly.[2] Therein lies the problem with the charge by the Congress of South African Trade Unions (COSATU) that the South African state is predatory. The language used by COSATU is both evocative and provocative. Indeed, it has engendered many seminars, and articles like the present one, which take that characterisation seriously enough to reflect on its cogency. Thus, in a sense, COSATU's choice of language has been, if nothing else, a stroke of strategic genius. It has certainly drawn attention to very serious problems that *do* exist within the state. As a result, scholarly energy is rightly being spent on thinking through problems, and COSATU is rightly receiving moral and political recognition for raising the stakes in the debate about how the state is getting on with the business of improving the lot of all its citizens.[3]

Notwithstanding the *strategic* gains of using a colourful analogy to describe the ANC-led government and state, the proposition that the state is, quite literally, a predatory one, is unsustainable (or so I will argue).

This is not to say that there are no serious problems within the state. There certainly are, and these too will be teased out in this article. Indeed, the nature of those problems – as will become apparent very quickly – are not merely of a technocratic sort. There is a deep, and deepening, ethical crisis within the state, a crisis that has a direct bearing on the capacity of the state to fulfil its developmental function adequately.

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Yet, this harsh indictment against the state notwithstanding, it remains an exaggeration to describe the South African state as predatory. I conclude that COSATU's characterisation is unconvincing.

In a critical afterthought, I suggest that the strategic and instrumental benefit of an *exaggerated* description of the nature of the South African state may well be defensible on utilitarian grounds. If COSATU's exaggeration can be a catalyst for the state, finally, to take seriously the erosion of moral values that systemic corruption speaks to, then it is not necessary to rap COSATU over the knuckles for a conceptual misapplication of the notion of a predatory state.

WHAT IS A PREDATORY STATE?

Predation conveys the idea of a state that preys on its citizens, in the same way that a predator in nature preys on a hapless victim.[4] The imagery that this evokes ranges from the less shocking (if dramatic) thought of a lion, say, hunting down small buck or, more grotesquely perhaps, that of a pack of hyenas feeding off the carcasses of the dead. This raises the question of what exactly the features are of a state that would make the use of this analogy fair and appropriate.[5] One way of proceeding is simply to consider a case that might be widely agreed to be illustrative, and to then tease out the general features of a predatory state.

I would argue that Mobutu Sese Seko's Democratic Republic of Congo (DRC)[6] is a *very clear* case. Present-day Zimbabwe might be a *reasonably clear* case. What then was and is the nature of these two societies? More specifically, what characterises the nature of the state in each of these cases?

The most existential feature of predation in Sese Seko's DRC was the deliberate and illegal *killing* of those deemed to be dissidents of the state. The killing of thousands of citizens who are not politically or otherwise pliant constitutes predation in the most literal sense possible. Nothing can be more dramatic than the reality of citizens being subject to the random and whimsical application of state power. These executions often happened in public in front of large audiences. As the dictator himself explained once, 'One had to strike through a spectacular example, and create the conditions of regime discipline. When a chief takes a decision, he decides – period.' (Young & Turner 1985: 57)

Furthermore, Sese Seko's state was characterised by rape, maiming and the infliction of similarly serious bodily and psychological assault on citizens. In these actions, we have another literal feature of state predation, *violation of the fundamental rights to bodily and psychological integrity* that citizens are morally entitled to as human beings (i.e. entitlements that do not even presuppose citizenship).

Sese Seko's state demonstrated another predatory characteristic, that of *looting*. Predators have no respect for the rights and ethical entitlements of their prey. A predator does not care whether or not the meat it is ripping apart belongs to someone else. Indeed, it does not care about the entitlement to decent treatment that the mere fact of sentience occasions. Indeed, it does not care that the 'meat' might actually be an autonomous, rational Kantian subject deserving of full respect. All the predator cares about is an egoistic drive to amass wealth for itself, regardless of the consequences and in abstraction from any rights or moral considerations. It is a ruthlessly selfish beast in pursuit of a ruthlessly one-dimensional project, accumulation. It is *solely* interested in *looting*.

The dictator that was Mobutu Sese Seko did exactly that. He led a state that extracted minerals for the economic gain of the elite only. In his personal capacity, he looted this wealth, which belonged collectively to himself and his fellow countrymen, by stashing the proceeds of the sale of minerals in offshore bank accounts.[7] There was no pretence here to be involved in a process that paid even lip service to the idea of collective ownership or the economic development of strategic sectors so that there might be a trickle-down benefit for the rest of society. Citizens were *nowhere* in the equation.

In summary, Sese Seko's DRC is a case study in state predation that reveals a number of general features. A predatory state, typically, is one that demonstrates: *wholesale and systematic disrespect for even the most fundamental rights and moral entitlements of citizens*, including rights to bodily and psychological well-being; and *ruthless and systematic looting of national resources* for the exclusive benefit of those exercising power.

Martinussen (1997: 238) provides an exposition of Peter Evans' conception of a predatory state, which proposes a similar cluster of characteristics, referring to a predatory state as one that is 'characterised by an incoherent and inefficient state administration, which has very little capacity to promote economic and social development'. Furthermore, such a state is 'controlled by a small political elite, possibly an autocratic ruler who uses the state and its resources to promote his own narrow interests'. That is exactly what Mobutu Sese Seko's DRC was like.

It should be apparent why present-day Zimbabwe can be described as a *reasonably*, although not a *very*, clear case. It certainly is a state that has been steadily marching towards Sese Seko's DRC over the past ten years or so, but it is not quite there yet. It does, of course, now display important elements of the prototypical case of the erstwhile DRC. For example, there is evidence of looting in Zimbabwe.[8] Even land that has been taken away as a result of the land invasions of former white-owned farms is often redistributed among ruling party officials. That fits the second formal feature of a predatory state discussed above.

There are also signs of a state that is increasingly brazen in its disregard for citizen's rights to bodily and psychological well-being. Not only does the looting of national resources directly, and negatively, impact on the well-being of citizens, but, more explicitly still, the Zimbabwean state is reportedly engaged in the physical and psychological torture of those perceived to be dissidents. This is why millions of Zimbabweans have fled the country. Not even opposition leaders are spared this assault (at least in the sense that one might have expected a more covert disregard of citizens' rights, away from the public limelight).[9]

However, despite the deep anti-democratic horror of these characteristics of present-day Zimbabwe, I am loath to classify it in the same category as Sese Seko's DRC. Why? Because, although somewhat discombobulating, there are important counter-considerations that militate against the use of the term 'predatory state'. For example, although very few observers would even pretend that substantive democracy exists in Zimbabwe, it is also true, nevertheless, that citizens do not have no access to, and some faith in, the imperfect parliamentary and extra-political institutions and structures to engage the state in their continued wrestling with the ruling party for a reversal of anti-democratic, predatory tendencies.[10]

Indeed, the very idea of an opposition party, in a unified government (notwithstanding its troubles), and regional blocs like the South African Development Community being able to engage the Zimbabwean state, speak to the reality that while Zimbabwe can be characterised as *approximating* full predatory statehood, it has (mercifully) not quite arrived at that destination. There is, as yet, no 'wholesale and systematic disrespect' for citizens' rights akin to the prototypical case of Sese Seko's DRC. The scale of the assault on citizens' rights does matter if the term 'predatory state' is to be used meaningfully and with analytical consistency. Similarly, while there are elements of looting (such as the random ownership assignment of farms), the overall economic structure is still not analogous to that of the prototype DRC case.

It goes without saying (and I will elaborate on this claim below) that not being classified a predatory state does not mean that a state is given a clean bill of health or that it is not gravely ill. Therefore, it is important that critics of a state like Zimbabwe do not misconstrue the discussion in this section as an exoneration of the Zimbabwe regime's actions. It is not. The point of this section is wholly analytical. It is an exercise in making sense of what the criteria are for the term 'predatory state' to be an accurate label that can be attached to particular states. Thus, for the reasons discussed here, I conclude that Sese Seko's state was *very clearly* predatory and Mugabe's present-day Zimbabwe is (only) a *reasonably clear* case of a predatory state.

IS THE SOUTH AFRICAN STATE PREDATORY?

The South African state is a complex beast that has many positive and negative features. Whether a particular characteristic is negative or positive will invariably be contested. I will not here defend my own basic ideological assumptions but simply offer *prima facie* reasons for my characterisation, and hope that these will seem at least coherent, if not compelling, to one who might disagree with the characterisation that is offered.

On the positive side, firstly, the South African state does display some elements of being *caring*. South Africa has a large welfare budget, for example, which allows it to support those living in poverty. Up to R134.2 billion will be spent on social protection during 2010/11.[11] The amounts of money spent on education and health care compare favourably with international trends.[12]

Obviously, there are important improvements that need to happen in the way these budgets are spent. South African high school pupils often do worse than their counterparts in developing countries (including many African countries) in subjects such as maths and science.[13] This is testimony to the fact that *per capita* expenditure on social goods like education is not the sole or even primary determinant of whether that system will deliver appropriately skilled graduates. Similarly, the health system continues to experience countless systemic challenges, again reinforcing the myth that one can simply throw money at systemic problems. A lack of capacity within the state is arguably the single biggest impediment to the realisation of the South African state's developmental objectives.

On a more ideological level, some might claim that the state does not adequately respect (let alone *activate*) the agency of the poor by simply spending money on them rather than enabling them to become self-sufficient. This is, of course, a classic debate with well-rehearsed, principled and empirical arguments on both sides. It need not be settled here.

What is clear for the purposes of this exercise is that the state is definitely caring in its *intent*, regardless of the merits of the criticism of the policies that it designs or implements. This intent may not be shared or displayed by all state officials (as will be discussed shortly) but, from a systemic viewpoint, there is a policy framework in place that speaks to a state that is attempting to improve the lives of citizens. It is also clear, and contrary to Peter Evans' criteria for predation, that a fairly sophisticated administration and bureaucracy exists in South Africa. Its problems are inherent not in design or conceptualisation (primarily) but in execution.[14]

In this regard, it is important to note that the South African state continues to make *some* headway on a number of socio-economic fronts. Firstly, it is often wrongly thought that when one places the challenges that face the democratic South African state in the context of the deeply unjust socio-economic history it inherited, this amounts to excusing needless state failures. It is not my intention to do so. However, recognising the scale of the challenge of bringing the majority of South Africans into the fold of a new, caring state is a reality that *is* sometimes glibly overlooked or under-emphasised by critics of the state, including critics within the alliance of which the ruling party is a member.

Not only is there evidence of some success in improving the lot of the majority, but some of this success is, in fact, praiseworthy against the backdrop of the scale of the challenge that was inherited. Even within the public health sector, which continues to give rise to much critical debate about the state of the system and how to turn around shortcomings within it, there are successes. Primary health care, for example, is much improved since the early 1990s.[15] Also, albeit belated and in the wake of culpable state-sponsored AIDS denialism during the Mbeki years, the state-led fight against AIDS has improved tremendously over the past few years.

The truth is that the South African state is interesting and complex, precisely because it displays these differing, contrasting characteristics of success and failure.

The problem, of course, is that South Africa is one of the most unequal countries on the planet. It is difficult, therefore, to talk of pockets of success or improvement or an attitude of *care* when unemployment levels remain very high, poverty levels remain very high and income inequality continues to grow.[16] These kinds of indicators speak to deep-seated problems with the state's capacity to deliver (this is discussed further below). Thus, it is unsurprising that many would resist attempts to characterise the South African state as caring, let alone as one that displays some developmental successes.

The truth is that the South African state is interesting and complex, precisely because it displays these differing, contrasting characteristics of success and failure. Many of the failures constitute *acts of predation*, but countless negative actions do not necessarily (or as yet) constitute a vicious moral character or, more to COSATU's point, a predatory state as such.

A MORAL CRISIS AT THE HEART OF THE SOUTH AFRICAN STATE

There certainly *is* a moral crisis at the heart of the South African state. In a sense, it is unhelpful to be locked into a terminological debate when the substantive issues – whatever linguistic marker you give them – are in urgent need of recognition and fixing.

A key problem in the South African body politic is a failure to distinguish between ethics, on the one hand, and administrative rules, on the other. For example, when there was a raft of criticism against ministers for using their discretionary power to buy expensive cars or to live in five-star hotels,[17] the defence that was trotted out most often was that no laws had been broken in the process. This response is premised on the belief that as long as elected officials follow administrative rules to the letter, their behaviour cannot be criticised. More to the point, the defence is a failure to recognise that law and ethics do not always coincide and that we expect our elected officials (and public servants generally) to behave in a manner that not *only* is consistent with the law but also is ethically sound. Indeed, ethical behaviour is in a sense more important and more fundamental.

This raises the question of what ethical behaviour looks like and how the rules that govern ethics differ from or relate to legal or administrative rules.

Public servants and elected officials in South Africa need to start realising that we expect them to display ethical excellence. We do not expect them merely to comply with the laws of the land.

Of course, at this point, a thorny epistemological question raises its ugly head. How do I know what is required of me ethically? This is a question that cannot be responded to fully here, but it is not necessary to spell out and defend an entire ethical system before making sense of the ethical obligations that our politicians and public servants have. There *is* an overlapping consensus among major ethical codes and different communities that provides at least a *minimum standard of ethical decency*.

Methodologically, public servants need merely ask themselves, critically, what the wider social impact of a particular action would be and then to judge whether, on balance, it is socially appropriate to perform that action, guided by what the impact on society would be. Even if officials were to rely on their own moral intuition, much of the actual behaviour of our public servants and politicians, in my view, would be ethically unacceptable. For example, how can someone thinking about the social impact of his or her actions come to the conclusion that, during a time of economic crisis, and within the context of a nation that experiences deep income inequality, high unemployment and shocking levels of poverty, it is ethically acceptable to use up to the maximum amount of money one is administratively allowed to spend on cars or hotel stays? We do not need guidance from an independently developed moral code to judge that this behaviour falls short of ethical excellence. The crux of the problem is not a lack of knowledge of what is ethically required; it is simply a brazen failure to *act* ethically.

CONCLUSION: TWO AFTERTHOUGHTS

It is, of course, almost always easier to offer a diagnosis of a problem than it is to proffer a solution to get rid of it. Even if South Africa is not (yet) a predatory state, as I have argued, it is clear that there is a steady erosion of ethical values within the state machinery. That is a profoundly serious impediment to service delivery. How should we respond to this ethical failure?

Role-modelling good ethical behaviour is crucial. Both senior politicians and senior civil servants must do so. This is precisely where many senior politicians within the South African body politic fall short. Those Cabinet ministers who hide behind the administrative right to spend money on luxury cars do not lead by ethical example. Why, then, should one be surprised when a lower-ranking political official 'deployed' to a public position (for example, that of municipal manager) also abuses discretionary power?

If higher-ranking politicians and public servants fail to understand the distinction between what is ethically required and what is legally allowed, then role-modelling is bound to be poor. This requires the highest high-ranking official, who is ultimately the president, to insist on good ethical behaviour.

Here, too, there are constraints. For one thing, the president did not have a controversy-free trajectory to the Union Building. He has befriended individuals, like Schabir Shaik, who have been found guilty of corruption.[18] He also has family members who *appear* (even if not proven) to be benefiting from their association with the Zuma name and Zuma family.[19]

Furthermore, the desire to return to office for a second term means that personal desire and professional ambition might be in tension with consistently principled leadership. This is why the recent Cabinet reshuffle, for example, was a less than consistent demonstration of rewarding ethical excellence (illustrated by the dismissal of the ethically praiseworthy Minister of Public Enterprises, Barbara Hogan, and the retention of the Minister of Higher Education, Blade Nzimande, who has used discretionary powers inappropriately).

It is unclear, therefore, how a culture of role-modelling ethical excellence can be developed among our top civil servants and political principals. Many of these individuals, sadly, are part of the problem.

A clearer set of ethical rules can also still be developed. Again, it is not necessary to first develop a comprehensive ethical theory in order for specific ethical rules to be justified. For example, as pointed out by former opposition parliamentarian Raenette Taljaard (in Misra-Dexter & February 2010), rules governing conflicts of interest are needlessly vague. As is revealed consistently by both the Auditor-General and the Public Service Commission, many public officials are directors of companies that profit from doing business with the state. It goes without saying that such political connections no doubt give many companies a head start in the procurement processes of various state departments. Not only does this create a perception of possible wrongdoing, it can also result (more importantly) in poor service delivery and/or inefficient public spending if the wrong company is awarded a tender.[20]

Furthermore, it is very important for *the criminal justice system* to come down hard on offenders. Here, too, there are constraints. Most importantly, the courts cannot be used to enforce morality. The best the law can do (as important as this function is) is to insist on compliance with the letter of the law. If we are to become a country in which public servants aspire to being ethically excellent and not only legally compliant with the laws of the land, then we may need to resort to practical interventions such as serious, deliberate and practical courses (at least from middle-management levels and upwards, to start with) aimed at developing and instilling an ethical *sense* in public servants. This could even be incentivised through awards; for example, one might reward those who best exhibit the ethical values and principles within a state department.

It is unclear, therefore, how a culture of role-modelling ethical excellence can be developed among our top civil servants and political principals. Many of these individuals, sadly, are part of the problem.

A second constraint on using the law to develop a sense of ethics is that the people who should be doing the law enforcement are sometimes also part of the problem. The most spectacular example, of course, is the recent guilty verdict in the case of the former police commissioner, Jackie Selebi.[21] So, enforcing those laws that do speak to ethics (e.g. anti-corruption laws) is a tool that is only as effective as the willingness of enforcement agencies to do a thorough, unbiased and fearless job in law enforcement.

Again, however, there are some signs of success, minor and few as these may be. For example, the guilty verdict in the Selebi case might not point to a systemic change within the law enforcement apparatus, but it shows what is possible. The recent arrest of ANC Northern Cape leader, John Block, sends a similarly positive signal.[22] It is these exceptions that make the charge of a predatory state incorrect. Of course, the aim should be for these kinds of exposes of corruption to be manifold. Too much corruption still appears to go unpunished.

Nevertheless, through role-modelling ethical excellence, providing for the ethical training of public servants, developing a clearer set of ethical rules and giving law enforcement agencies the space to fearlessly pursue instances of corrupt (and therefore unethical) behaviour, the country's leadership might yet reverse the increasing patterns of behaviour that threaten to take us, unambiguously, towards a predator state.

Does all of this mean that COSATU should refrain from using phrases like 'predator state' or (more narrowly still) 'predator elite'? Not necessarily. There is a *strategic* gain in offering an exaggerated diagnosis of the (ill-)health of the state, so there might be a kind of utilitarian justification for using this kind of language *despite* the argument offered throughout this article that the use of the phrase is conceptually suspect.

The most important advantage of COSATU's use of the word 'predator' is that it focuses immediate attention on the scourge of corruption because of the evocative rhetorical power of the word. This, in turn, has the consequence of ensuring that the media and civil society, and society at large, focus attention on the reality of a state that contains many officials who are plundering societal resources in myriad ways. The use of this kind of political language, therefore, can ensure (as, indeed, has been the case) that an issue is placed on the proverbial national agenda. Alternatively, it can keep an issue *alive* in the public conscience long after we have all started to experience corruption fatigue, in the sense of becoming desensitised to weekly exposes of wrongdoing.

If one looks at the good investigative reporting done by the print media, for example, it is almost expected that a front-page lead will detail the latest scandal within, say, the correctional services department, or a businessman's links to a procurement official. Rhetorical devices that can help renew a sense of anger, a sense of vigilance among the electorate, civil society organisations and the various institutions and constitutionally mandated bodies that monitor corrupt behaviour, should be welcomed.

Thus, a limited justification for the misapplication of the phrase 'predatory state' clearly exists. Political language cannot be restricted only to words that are literally and accurately applied. If the consequence of an exaggerated bit of political speech is that it results in more effective oversight and enhanced accountability, then it might well be justified.

So it is with COSATU's claim that we have become, or are becoming, a predatory state or a state ruled by a predatory elite. It is a hasty description, in one sense, but a stroke of strategic genius, in another. These phrases, I conclude, are used with analytical sloppiness, but their usage is, nevertheless, politically justified because of the positive consequences that emerge from their location within public discourse.

NOTES

1 These assertions refer to the South African state that exists in late 2010. The assessment, in future, as the essay itself suggests, might of course be(come) different.

2 COSATU itself seems to oscillate between claims that the state is predatory and that the state consists of a predatory elite. These two claims have different truth conditions. Both, however, are unwarranted at present; consequently, this article can be read as offering a rebuttal against the *set of claims*. Also, it is unclear whether COSATU alleges only that we are *becoming* a predatory state or whether it thinks we have arrived at that destination. Again, this ambiguity does not get in the way of this article's analysis, since both claims, I argue, are unconvincing. Of course, the fact that features of predation exist makes the former claim (that we are *becoming* a predatory state) not entirely implausible. Nevertheless, there is no clear, unstoppable *march* towards such a state at this time.

3 Such reward, of course, is not forthcoming from COSATU's alliance partner, the ANC.

4 Those of a literary bent might have noticed, of course, that occasionally our politicians, rather clumsily, use a mixed set of metaphors. For example, COSATU sometimes refers to the predatory elite as 'hyenas'. Of course, hyenas are not predators; they are scavengers with a positive reputation in biology, being creatures that (merely) clean up a leftover carcass. They might be crafty, but are not primarily ruthless killers. I, therefore, stick (for the most part) to the stronger analogy of predation as the one that better conveys COSATU's political sentiments.

5 It is not clear what inspired the use of this analogy. It has been suggested by some that the inspiration came from the opening pages of Michael Wrong's It is our turn to eat (2009), which, as he has explained in an interview, is about 'predatory looting by a sleazy elite' (see http://www.transparency.org/publications/newsletter/2009/march_2009/interview).

6 The country was, of course, known as Zaire for the greater part of Sese Seko's reign.

7 Transparency International has estimated that Sese Seko embezzled more than US$5 billion, although the Swiss government claimed that the dictator's wealth was considerably smaller (see http://www.guardian.co.uk/world/2004/mar/26/indonesia.philippines).

8 Reports, and court cases, documenting these trends abound. See, for example, http://allafrica.com/stories/201007121301.html and http://www.thezimbabwemail.com/zimbabwe/6543.html.

9 Both Human Rights Watch and Amnesty International have documented these violations, and newspapers have reported on the exodus of Zimbabweans to neighbouring countries like South Africa and Botswana. See, for example, http://www.hrw.org/englishwr2k7/docs/2007/01/11/zimbab14720.htm, http://www.amnesty.org/ and http://www.guardian.co.uk/world/2007/jul/01/zimbabwe.southafrica.

10 The current Global Political Agreement, for example, and multi-party government that exist within Zimbabwe are structural features of democratisation that are not insignificant, despite important challenges in the functioning of this fledgling unity government.

11 See http://www.moneyweb.co.za/mw/view/mw/en/page302588?oid=512968&sn=2009+Detail&pid=287226.

12 See http://www.globalhealthfacts.org/topic.jsp?i=66 and https://www.cia.gov/library/publications/the-world-factbook/rankorder/2206rank.html.

13 See http://www.hsrc.ac.za/Document-540.phtml.

14 This statement is open to contestation, of course. Many who work within specific locales, such as particular state hospitals, would be able to offer examples of weak operational systems and checks and balances that explain why medical supplies, say, are not always ordered and obtained in time for use within those hospitals. My point is more general: in states like Sese Seko's DRC or latter-day Zimbabwe, the kinds of administrative structures in place within the current South African state did not exist. This is an important distinguishing feature of a struggling developmental state like South Africa, and an unambiguously predatory state like Sese Seko's.

15 See http://www.doh.gov.za/docs/reports/2010/overview1994-2010.pdf.

16 See http://www.statssa.gov.za/keyindicators/qlfs.asp, for example, on the latest unemployment levels. South Africa's income inequality gap, too, remains one of the worst in the world (see https://www.cia.gov/library/publications/the-world-factbook/rankorder/2172rank.html).

17 See http://www.news24.com/SouthAfrica/Politics/R426m-spent-on-ministers cars -20091013 and (including a spurious justification of these discretionary abuses) http://www.mg.co.za/article/2009-10-28-ministers-luxury-cars-tools-to-do-work.

18 See http://www.mg.co.za/article/2005-06-01-shaik-zuma-relationship-corrupt.

19 See http://www.mg.co.za/article/2010-03-26-zumas-nephew-and-the-mine-meltdown.

20 See http://www.citypress.co.za/SouthAfrica/News/Now-Malema-bungles-R8m-project-20100328.

21 See http://www.guardian.co.uk/world/2010/aug/03/jackie-selebi-south-africa-corruption-sentence.

22 He may be innocent, of course, so the mere arrest should not constitute a sign of the justice system working, but the fact that a powerful politician can be investigated and arrested on the basis of *prima facie* evidence *is* a sign of procedural merit.

analysis

SERVICE DELIVERY: OVERCOMING THE INSTITUTIONAL CHALLENGES

Thomas A Koelble and Edward LiPuma[1]

INTRODUCTION: SERVICE DELIVERY AND THE POLITICS OF PROMISES

The South African voting public has been promised adequate housing, access to water, electricity, sanitation, education, health care, decent transportation and economic opportunities. Yet, 16 years after democracy's arrival, many people still lack access to these basic necessities. In effect, the constitutional commitments to a generic set of human and socio-economic rights like equality and dignity are negated by the living conditions under which a large number of South African citizens labour (Desai 2002; Ramphele 2008). In recent years, embattled municipalities have been engulfed by a wave of protests, generically referred to as 'service delivery protests', although the phenomenon is most probably more general in nature and not aimed only at the lack of service delivery (Pithouse 2008; Alexander 2010).

The main mechanism for service delivery is municipal government. Its task is the construction, maintenance and development of basic infrastructure, including water supply, electrification, housing, sanitation and refuse collection (Atkinson & Marais 2006). Apart from being the 'developmental' arm of the government, it is also supposed to bring democracy to the local level (Friedman & Kihato 2004). That this 'third' branch of government is not up to its dual task is recognised by the current political leadership. The then Department of Provincial and Local Government commissioned several studies on the abilities of local government, such as Project Consolidate (DPLG 2004). While that study certainly identified the extent of the problem, solutions were more difficult to define because of major disagreement as to the cause of the malaise. Since then, the renamed Department of Co-operative Governance and Traditional Affairs has produced several policy papers, including a local-government turnaround strategy intended to bring an end to the service delivery problem (COGTA 2009). However, we believe that the strategy, while certainly well intentioned, does not address the major deficiencies in local government: a severe skills shortage in financial and technical matters, most visible in the poor and rural areas, and enforcement mechanisms to oversee the financial processes of the municipalities and ensure accountability to the electorate.

Our study indicates that the problem of non-delivery is located not so much in demographic shifts or a general lack of funding, but in a lack of state capacity and an unwillingness on the part of the central state to enforce the existing legislative rules on its own operatives in local government. We believe that the primary step towards providing adequate service delivery lies in the development of streamlined institutional structures with oversight capacities over financial matters and intervention capacities that enable those municipalities with clear deficiencies to exercise their functions. While there are several national policy papers outlining the intention of the government to enable better service delivery, these efforts, so far, have resulted in very few visible attempts at actually enforcing rules and regulations on local politicians and administrators to ensure accountability and improved service levels.

THE STATE OF SERVICE DELIVERY

Our study is based on detailed profiles of 18 municipalities across the Eastern and Western Cape (see Table 1.2.1). The cases include two metropolitan areas (Cape Town and the Nelson Mandela Metropole), municipalities with cities (Buffalo City and Stellenbosch), a set of urban/rural municipalities (Makana and Oudtshoorn) and several rural municipalities (such as Ngqushwa, Nkonkobe and Cape Agulhas). The cases were chosen to provide a broad cross section of municipalities, and include some of the most and least affluent communities in the country. We also paid particular attention to providing a sample of municipalities with relatively similar socio-economic profiles but where service delivery levels appear to diverge from satisfactory to indifferent to poor (Prince Albert, Laingsburg and Beaufort West).[2]

The problem of non-delivery is located in a lack of state capacity and an unwillingness on the part of the central state to enforce the existing legislative rules on its own operatives in local government.

Table 1.2.1: Municipalities chosen for the project	
Quintile 1	**Average spending per resident – R3 637**
Number	*Municipality*
1	City of Cape Town Metropolitan Municipality (WC000)
2	Saldanha Bay Local Municipality (WC014)
3	Nelson Mandela Bay Metropolitan Municipality (EC000)
Quintile 2	**Average spending per resident – R2 630**
Number	*Municipality*
4	Stellenbosch Local Municipality (WC024)
5	Cape Agulhas Local Municipality (WC033)
Quintile 3	**Average spending per resident – R1 488**
Number	*Municipality*
6	Buffalo City Local Municipality (EC125)
7	Laingsburg Local Municipality (WC051)
8	Witzenberg Local Municipality (WC022)
9	Oudtshoorn Local Municipality (WC045)
10	Beaufort West Local Municipality (WC053)
11	Makana Local Municipality (EC104)
Quintile 4	**Average spending per resident – R504**
Number	*Municipality*
12	Prince Albert Local Municipality (WC052)
13	Nkonkobe Local Municipality (EC127)
14	King Sabata Dalindyebo Local Municipality (EC 157)
15	Sakhisizwe Local Municipality (EC138)
16	Ngqushwa Local Municipality (EC126)
Quintile 5	**Average spending per resident – R146**
Number	*Municipality*
17	Port St John's Local Municipality (EC154)
18	Umzimvubu Local Municipality (EC05b2)

Source: Makgetla (2007: 150; 164–166), based on figures provided by the Treasury.

There is evidence to suggest that the metropolitan areas and municipalities reproduce structural inequities through their cost-recovery programmes. The poor find themselves inadequately serviced and subject to service cut-offs for non-payment (Smith & Hanson 2003). This may account for the relatively high levels of political activism around service delivery failure in the urban areas of the country, where the more affluent areas are served well and the poorer areas are served less adequately. The situation of municipalities in quintiles 3–5 is quite different from that of the metropolitan areas and the municipalities in quintiles 1 and 2. These cases all illustrated service delivery failures, from the most basic issues of electrification to water and sanitation. Even municipalities such as Buffalo City or Makana, which possess a tax base, clearly reveal the shortcomings of municipal government. In these areas, service delivery is generally of poor quality and, while the more affluent areas are serviced better than the poor ones, there are very few such areas to serve as an example of differentiation. The data also indicate that the poorest of the poor municipalities in quintile 5 not only have to cope with a marginal increase in population, they also have no tax base for income generation, and service levels are extraordinarily poor.

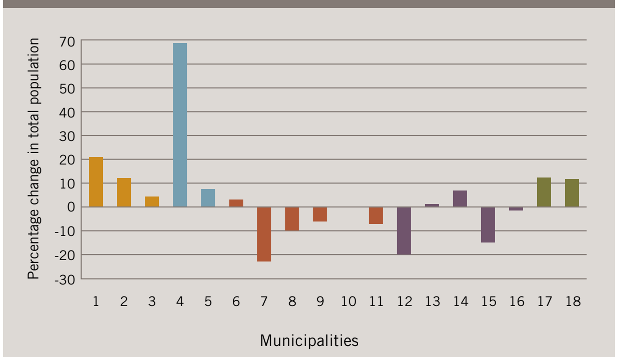
Figure 1.2.2 provides information as to the levels of service delivery across the municipalities. It illustrates the challenges facing local government in the less economically active areas of the country. In quintiles 3–5, the backlogs in water supply, electrification, basic sanitation and refuse collection are substantial. Similarly, it is clear that some parts of the country are still waiting for piped water. In many rural municipalities, basic sanitation, not to speak of refuse removal, is a distant dream. Most people make use of 'rubbish dumps' behind their houses or deposit refuse wherever convenient. Basic service levels, especially in the rural and deprived regions of the country, are rudimentary or, in many instances, non-existent.

Nevertheless, some progress has been made in reducing these backlogs in the six-year period between the 2001 Census and the 2007 Community Survey, particularly in terms of the provision of water, sanitation and electricity in the poorer municipalities in quintiles 4 and 5. Electricity service levels improved across all 18 municipalities between 2001 and 2007, and, similarly, service backlogs in sanitation declined across the board. Likewise, most of the municipalities have made good progress in reducing water service backlogs, with the exception of Stellenbosch, Cape Agulhas, Laingsburg, Witzenberg, Beaufort West and Prince Albert, where water service backlogs have increased. This situation may be explained by the fact that these are agricultural, semi-arid

Legend to municipal graphs		
Quintile 1	1	City of Cape Town Metropolitan Municipality
	2	Saldanha Bay Local Municipality
	3	Nelson Mandela Bay Metropolitan Municipality
Quintile 2	4	Stellenbosch Local Municipality
	5	Cape Agulhas Local Municipality
Quintile 3	6	Buffalo City Local Municipality
	7	Laingsburg Local Municipality
	8	Witzenberg Local Municipality
	9	Oudtshoorn Local Municipality
	10	Beaufort West Local Municipality
	11	Makana Local Municipality
Quintile 4	12	Prince Albert Local Municipality
	13	Nkonkobe Local Municipality
	14	King Sabata Dalindyebo Local Municipality
	15	Sakhisizwe Local Municipality
	16	Ngqushwa Local Municipality
Quintile 5	17	Port St John's Local Municipality
	18	Umzimvubu Local Municipality

Note: The colour-coding system is used to distinguish the municipalities by their respective quintiles in the comparative graphs that involve all 18 municipalities.

Figure 1.2.1: Changes in total population, 2001–2007[3]



Note: The population figures for 2007 are obtained from Statistics South Africa's Community Survey 2007.

zones where water is at a premium and cycles of drought increase the demand for water substantially, as has been the case in 2009/10.

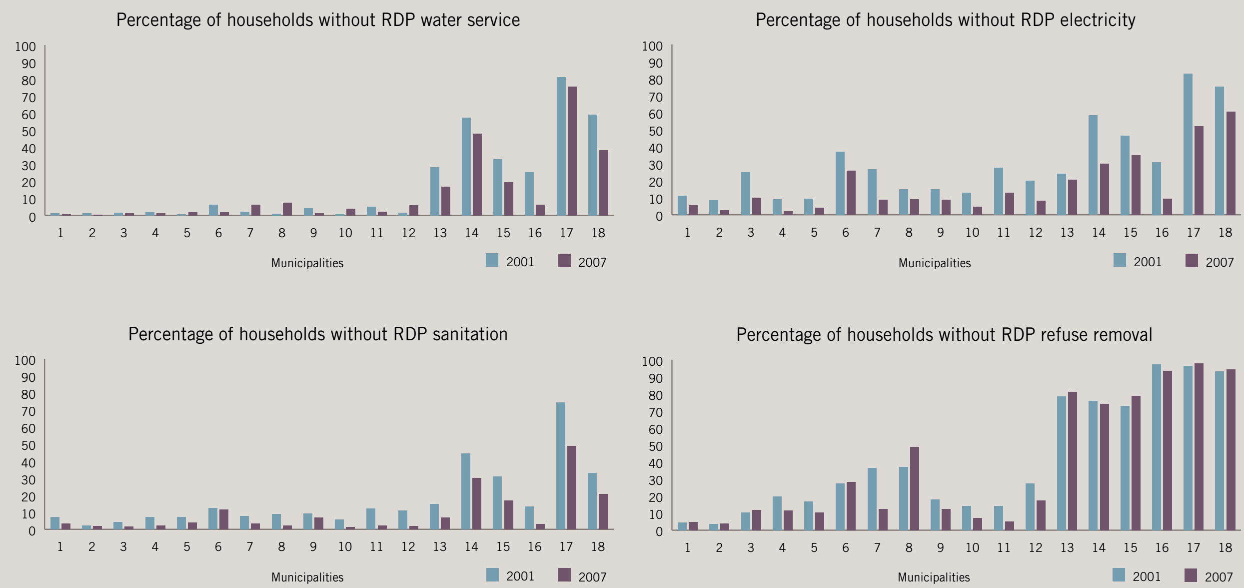
In contrast, there has been mixed progress in reducing refuse-removal backlogs across the 18 municipalities, with increases in backlogs in Buffalo City, Witzenberg, Nkonkobe, Sakhisizwe and Port St John's, while backlogs in the remaining municipalities have all been reduced. What this finding indicates is that if a parastatal institution such as Eskom or a government department such as the Department of Water Affairs and Forestry embarks on a well-planned national strategy to introduce services, backlogs can be addressed throughout the country. If, however, there is no such effort from the national level downwards, because of an expectation that municipalities will provide the service, the result is likely to be a colossal failure. Sanitation, refuse collection and maintenance of the water supply are cases in point.

Despite the improvements in service delivery, RDP service backlogs in the majority of the municipalities in quintiles 4 and 5 remain worryingly high, especially in terms of refuse removal, where backlogs for all of the Eastern Cape municipalities in quintile 5 exceed 90 per cent, and for those in quintile 4 are greater than 70 per cent. In addition, there remain large backlogs in the provision of water in King Sabata Dalindyebo, Port St John's and Umzimvubu; in sanitation in Makana, Nkonkobe, King Sabata Dalindyebo, Ngqushwa and Umzimvubu; and in electricity in Sakhisizwe, Port St John's and Umzimvubu.

THE POLITICS OF FUNDING

Municipal finance is derived from four main sources: local rates and taxes; charges for various services performed by the municipality, such as electricity and water supply, and sewerage and refuse-collection charges; other income, often from investments, loans or bonds; and government subsidies (the so-called equitable share) and grants (Van Ryneveld 2006). The first two are paid for by the local community, the third is based on commercial transactions usually involving banks, and the last is funded by the central government, which provides grants to the provincial government for distribution at the municipal level and which subsidies various programmes and projects and attempts to ensure equitable funding throughout the range of municipalities. The third category (commercial loans and bonds), in particular, is accessible only to municipalities with good credit ratings. In recent years, several of South Africa's metropolitan areas have gained excellent credit ratings and,

Figure 1.2.2: Reconstruction and Development Programme service backlogs for core functions, 2001 and 2007



thereby, the opportunity to obtain commercial loans.

The pie charts in Figure 1.2.3 compare the percentage contributions of four broad income sources (rates, service charges, grants and other) to total operating income in different municipalities in the 2006/07 financial year.[4] One municipality is selected from each of quintiles 1 (Cape Town Metro), 2 (Cape Agulhas), 4 (Nkonkobe) and 5 (Port St John's) for the purposes of comparison.[5] In quintile 3, the income streams for Buffalo City and Makana are presented in order to compare the contribution of various income sources in an urban and a more rural municipality.

Income from service charges represents the main source of income for the selected municipalities in quintiles 1–3. In comparison, income from grants represents a relatively minor source of operating income in quintiles 1 and 2, accounting for approximately 7 per cent of total operating income. In Buffalo City and Makana, in quintile 3, grant income accounts for approximately one-fifth of each municipality's total operating income. In contrast, the contributions of income from service charges and grants are reversed in the selected municipalities in quintiles 4 and 5, both of which rely heavily on income from grants (which accounts for as much as 55 per cent of total operating income in Nkonkobe and 58 per cent in Port St John's). In comparison, estimated income from service charges contributes just 3 per cent and 9 per cent of total operating income in these two municipalities respectively. This is unsurprising, given the high levels of poverty in these economically depressed areas, where people simply cannot afford to pay for the services the municipalities offer.

Interestingly, however, the contribution of rates income is relatively even across the selected municipalities (ranging from 15 per cent of total operating income in Nkonkobe and Port St John's to 24 per cent in Cape Agulhas). However, given the high levels of poverty in the municipalities in quintiles 4 and 5, it is likely that the rates income projections in these municipalities are grossly overestimated and represent fundamental budgeting errors. They are not useful for any serious budgeting exercise and indicate an overestimation of the size and scope of the local economy relative to the capacity of the municipality to raise revenue from that economy.[6]

One of the obvious legacies of the apartheid regime is that impoverished areas of the country are so poor that municipalities find it impossible to collect rates and taxes or payment for services, simply because those able to pay are few and far between. Moreover, such municipalities find it difficult to obtain loans from commercial banks, as they are

One of the obvious legacies of the apartheid regime is that impoverished areas of the country are so poor that municipalities find it impossible to collect rates and taxes or payment for services, simply because those able to pay are few and far between.

not deemed credit worthy. Consequently, municipalities in quintiles 3–5 are almost entirely dependent on government grants and subsidies. There is then a strong case to be made for some form of cross-subsidisation from affluent areas to the underdeveloped areas of the country. Such cross-subsidisation is beginning to take hold in some of the metropolitan structures and, through the efforts of the Financial and Fiscal Commission via the equitable-share formula, attempts are being made to ensure that adequate funding is obtained for municipalities in need. The equitable share is replacing the conditional grant that posed great difficulties for the poorer municipalities in the past, and is viewed by financial experts as the most appropriate instrument in going about ensuring greater equity in funding.[7]

The difficulties that such municipalities faced in obtaining conditional grants are captured in Table 1.2.2, which outlines the frequency with which each of the municipalities obtained government funding by way of various grants relating to recurrent allocations, allocations in-kind/indirect transfers and infrastructure allocations over the three-year period 2002/03–2004/05. The poorer municipalities often managed to gain a government grant for a specific project but then experienced inadequate funding from the centre in subsequent years. There is evidence to suggest that the application process, by all accounts a bureaucratic and time-consuming one, is beyond many of the new administrators.[8] As a result, consultants (very often retired municipal officials) were called in to prepare the applications on a case-by-case basis.

The trend in Table 1.2.2 indicates that, over the three-year period, government transfers to the municipalities in quintiles 4 and 5 were far less common than to those in quintiles 1–3. For instance, infrastructure allocations to the majority of the municipalities in quintiles 4 and 5 were confined largely to single allocations from the Local Economic Development Programme Grant, while Nkonkobe, King Sabata Dalindyebo and Ngqushwa also all received more than one allocation from the National Electrification Programme Grant. Similarly, with the exception of King Sabata Dalindyebo, recurrent allocations and allocations in-kind/indirect transfers to these municipalities were confined to allocations for the Implementation of Water Services Projects and from the Local Government Transition Fund.

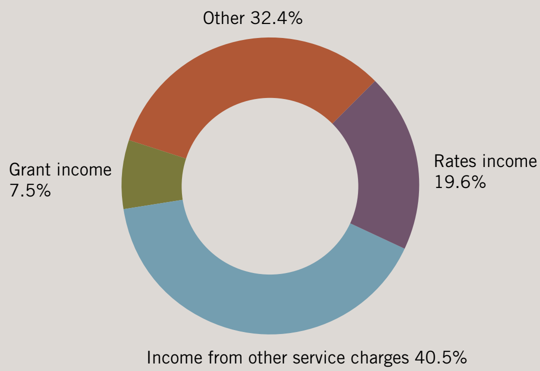
It is important to note, however, that the majority of these grants, including the Implementation of Water Services Projects grants, Water Services Operating Subsidy, Community-Based Public Works Programme Grant, Local Government Restructuring Grant, Local Government Financial Management Grant, Municipal Systems Improvement Programme Grant and the seven infrastructure allocations, are conditional grants. This means that the municipalities are required to meet a variety of specific conditions in order to be eligible to receive certain grants; in many cases, renewal of the grant allocation is contingent on factors such as the municipality exhibiting sufficient progress towards the implementation of projects, submitting detailed service plans and budgets and demonstrating acceptable levels of management expertise. In municipalities facing capacity constraints, failure to meet the conditions attached to the disbursement of the grant means that they are ineligible to receive the transfer.

In addition, many of the grants listed in Table 1.2.2 were discontinued over time, folded into the local government equitable share or incorporated into other grants. This offers an important explanation as to why some transfers were received in one of the financial years between 2002/03 and 2004/05 but not repeated in subsequent financial years. Specifically, the Consolidated Municipal Infrastructure Programme and Building for Sport and Recreation Programme grants both ended in 2003/04 and were folded into the Municipal Infrastructure Grant. Similarly, the Urban Transport Fund and Local Government Transition Fund grants were terminated in 2003/04, while the Integrated Sustainable Rural Development Programme Grant was available only in the 2002/03 financial year.

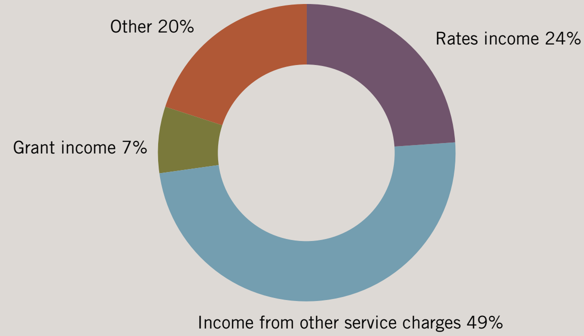
Nevertheless, there is a direct link between the fact that the majority of the 18 municipalities received frequent transfers from the National Electrification Programme and Implementation of Water Services grants, on the one hand, and the improvements in RDP electrification and water service levels experienced across the board between 2001 and 2007, on the other (see Figure 1.2.2). This supports the observation already made that central government transfers can have an important impact in improving the service delivery capacity of local municipalities, which raises an important question. Would it not be more appropriate to provide services centrally, through a national 'developmental state', and relieve the majority of municipalities of functions

Figure 1.2.3: Broad income sources of municipalities, 2006/07 (estimates as % of total operating income)

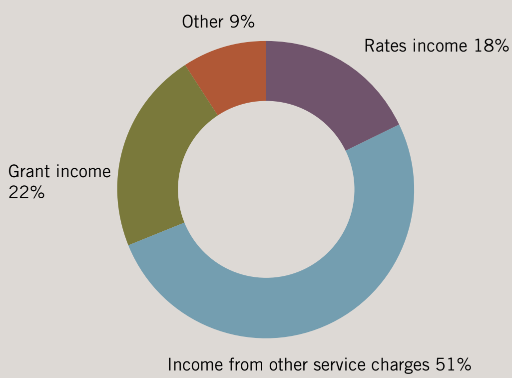
Quintile 1: Cape Town Metropolitan Municipality



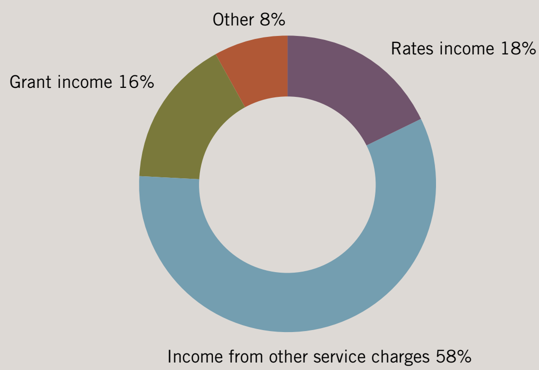
Quintile 2: Cape Agulhas Local Municipality



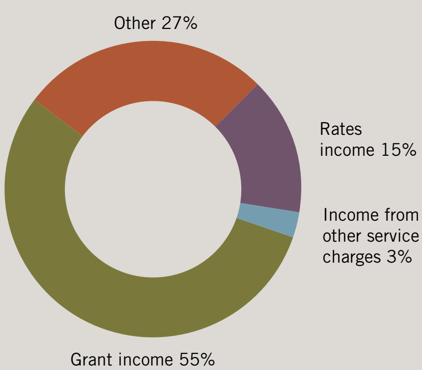
Quintile 3: Buffalo City Local Municipality



Quintile 3: Makana Local Municipality



Quintile 4: Nkonkobe Local Municipality



Quintile 5: Port St John's Local Municipality

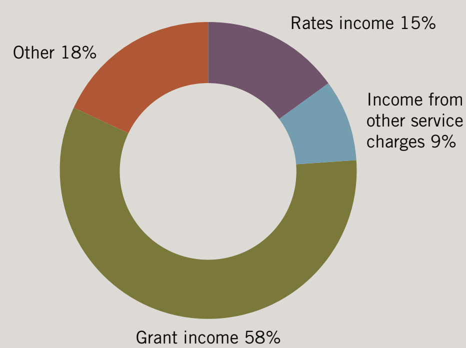


Table 1.2.2: Frequency of grant payments, 2002/03–2004/05

		Quintile 1			Quintile 2		Quintile 3	
		City of Cape Town Metro	Nelson Mandela Metro	Saldanha Bay	Stellenbosch	Cape Agulhas	Buffalo City	Laingsburg
Recurrent allocations	Local Government Financial Management Grant	3	2	0	3	0	3	0
	Local Government Restructuring Grant	0	0	0	0	0	0	0
	Municipal Systems Improvement Programme Grant	0	3	0	0	0	3	0
	Local Government Transition Fund	0	1	0	1	1	1	1
Allocations in-kind/ indirect transfers	Community Based Public Works Programme Grant	0	0	0	0	0	0	0
	Local Government Financial Management Grant	3	3	0	0	0	3	0
	Water Services Operating Subsidy	0	0	0	0	0	3	0
	Implementation of Water Services Projects (Capital)	0	0	0	0	0	2	2
Infrastructure allocations	Local Economic Development Programme Grant	2	2	0	2	1	1	1
	Community Based Public Works Programme Grant	0	2	0	0	0	0	0
	National Electrification Programme (NEP) Grant	3	3	3	0	3	3	0
	Urban Transport Fund Grant	0	1	0	0	0	1	0
	Building for Sports and Recreation Programme Grant	1	1	0	0	1	0	0
	Consolidated Municipal Infrastructure Programme Grant	3	3	0	3	0	3	0
	Integrated Sustainable Rural Development Programme Grant	0	0	0	0	0	0	0

Note: 0 = No grant received between 2002/03 and 2004/05; 1 = One grant received between 2002/03 and 2004/05; 2 = Two grants received between 2002/03 and 2004/05; 3 = Three grants received between 2002/03 and 2004/05.

Quintile 3				Quintile 4					Quintile 5	
Witzenberg	Oudtshoorn	Beaufort West	Makana	Prince Albert	Nkonkobe	King Sabata Dalindyebo	Sakhisizwe	Ngqushwa	Port St. John's	Umzimvubu
0	0	0	0	0	0	2	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0
1	1	1	1	1	1	1	1	1	1	1
0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0
0	1	1	2	2	3	2	2	1	2	3
2	1	2	1	0	1	1	0	1	1	1
0	0	0	0	0	0	0	0	0	0	0
3	3	3	2	0	3	3	0	2	0	0
0	0	0	0	0	0	0	0	0	0	0
1	1	1	0	1	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0

they cannot exercise in any case? In other words, it may prove to be a more successful delivery strategy to centralise service delivery and allow local government to concentrate on its democratic function of citizen participation.

Figure 1.2.4 compares the operating expenditure budget per capita for each municipality in the 2006/07 financial year.[9] This gives an indication of the vast inequality in operating expenditure across the 18 municipalities. The general trend shows operating expenditure per capita declining substantially across quintiles 1–5, with per capita operating expenditure in the Cape Town Metro (the municipality with the highest per capita budget) nearly 32 times greater than that in Umzimvubu (the municipality with the lowest per capita budget). Specifically, the Cape Town Metro budgeted to spend more than R4 750 per resident in the 2006/07 financial year, compared to Umzimvubu's per capita expenditure of just R149.

Notably, budgeted operating expenditure in the Nelson Mandela Metro amounted to approximately R2 101 per resident, which is substantially lower than the other municipalities in quintiles 1 and 2 (less than half the per capita budgets in the Cape Town Metro and Saldanha Bay in quintile 1). This figure for the Nelson Mandela Metro is also lower than the per capita operating budgets in Buffalo City and Laingsburg in quintile 3. The downward trend in this metropolitan area may indicate a more realistic assessment of the kind of income the city has been able to draw on in recent years and a more realistic approach to budgetary issues. However, it also indicates that the metro will face severe financial and, consequently, service delivery problems in the years to come, as its population increases but its resource base declines.

Operating expenditure per resident is particularly low in the majority of the Eastern Cape municipalities in quintile 4 and especially so in Prince Albert in the same quintile. However, Sakhisizwe represents an outlier. The municipality's budgeted operating expenditure per resident exceeded that of the Nelson Mandela Metro, and was also significantly higher than all of the other municipalities in quintiles 3–5.[10] We suspect that the figures for this municipality indicate massive problems in the budget itself rather than an improved financial situation and enhanced government services for the residents.

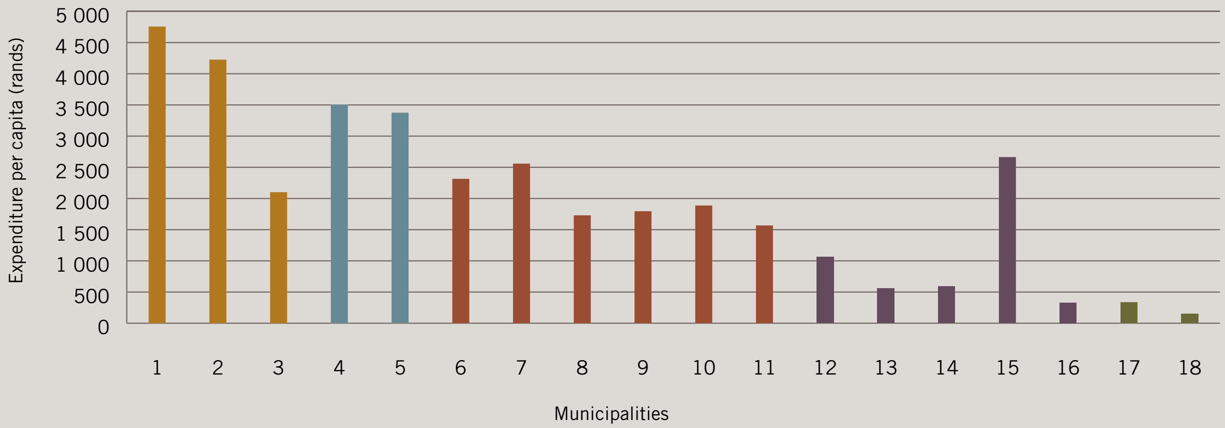
Analysis of the distribution of finance to local government has led various researchers to claim that the service delivery malaise is a financial problem at root, and Neva Magketla's (2006) argument concerning the perpetuation of inequality under the post-apartheid regime is certainly not without foundation. Poorer municipalities are highly dependent on government grants and loans. They are not able to draw on a substantial tax base; they suffer from the inability of their residents to pay for services and are frequently less able to maintain the existing infrastructure through their own efforts. Often, poorer municipalities are not able to draw on central government grants to the same extent that more affluent municipalities might be, since they either do not qualify for the schemes offered by the central government or they fail to follow the procedures set out to obtain funding. They also fail to qualify for infrastructural grants simply on the grounds that they do not have much of an infrastructure in the first place, and there is little incentive for either the provincial or the national government to place scarce resources in economically unpromising areas and regions.[11] Even with a fully functional equitable-share formula in place, the inequalities across the country are such that it is unlikely that rural areas will ever be economically self-sufficient. The structural inequities of the past are being reproduced under the current democratic regime and are likely to remain a feature of the country for some time to come. However, the conclusion that 'throwing money' at the problem would alleviate the service delivery problem is not one we would draw from the current situation. On the contrary, throwing money at the problem now would inflame the situation and lead to greater pilferage and non-accountability; the institutions of oversight need to be strengthened before more funding is committed and a robust system of cross-subsidisation is brought into existence.

It may prove to be a more successful delivery strategy to centralise service delivery and allow local government to concentrate on its democratic function of citizen participation.

DEMOCRACY AND INSTITUTIONS

Our major finding is that the role and function of local government is not fully understood by most of those in administrative and political positions at the local level; that the institutions of national government do not pay sufficient attention to policy failures at the local level; and that these failures are then exacerbated by one or a combination of the following factors: administrative incompetence, corruption and non-communication or, worse, unaccountability by local government officials to their constituencies.[12] Our main point is that the enormity of the task placed upon the

Figure 1.2.4: Municipalities' budgeted operating expenditure per capita, 2006/07



(Please refer to the graph legend on page 12 for the municipality breakdown)

shoulders of local government is beyond the present capacity of local government officials and institutions, at least in the poorer municipalities. These institutions are peopled by administrators not trained for the tasks confronting them; very often, they are staffed by inexperienced appointees; and, in many cases, municipalities simply lack the technical expertise to discharge the functions they are supposedly in charge of. Before more money is allocated to dealing with the local government problem, we would suggest that the institutional weaknesses of national policy, particularly urban policy, and local governance have to be addressed.[13]

There is a broad consensus in the academic literature on urban policy and planning that the new dispensation has not developed a coherent approach to the issue of development (Van Donk & Pieterse 2006). Atkinson and Marais (2006) suggest that urban policy since 1994 has been akin to the Tower of Babel, in that contradictory messages have been sent out to the municipalities and the general public. As a result of these contradictions, government departments have pursued their own interests and policies without concern for some broader agenda or their impact on migration and urbanisation patterns. In recent years, the government has attempted to define its thinking about where development is to take place and how it wishes to encourage development. However, the new National Spatial Development Perspective is yet to inform the various government departments of their role and function in the new development strategy.

The consequences of the incoherence in urban and spatial development policy means that all sorts of programmes (housing, health care, industrial development initiatives, social welfare policies and migration, to name a few) have all taken place in the context of the relevant departments with little co-ordination and oversight from the political and administrative centre. On all of these policy fronts, local government is treated as the instance where policy is turned into reality, again with little co-ordination or concern for how such policy is actually implemented or what its consequences might be. Moreover, as the neo-liberal policy framework began to take shape in 1996, the poor were abandoned increasingly in the policy-making process, and neo-liberal concerns with monetary implications guided the debate about what was to be done (Todes 2006). Local municipalities, the lowest and newest of the new governing institutions, ended up with the responsibility of implementing a myriad of 'developmental policies' without a coherent framework or co-ordination from the national and provincial levels of government and, increasingly, at the expense of their democratic role and purpose (Friedman & Kihato 2004). As a result of these failures at the top of the bureaucratic and political chain, the symptoms of the malaise soon became apparent at the local level, spilling out into all sorts of urban protests against the lack of delivery, the perception that local government was not serving its constituencies, and the fact that public servants and elected officials were in a position of relative autonomy that provided them with the opportunity to enrich themselves at the expense of their constituents.

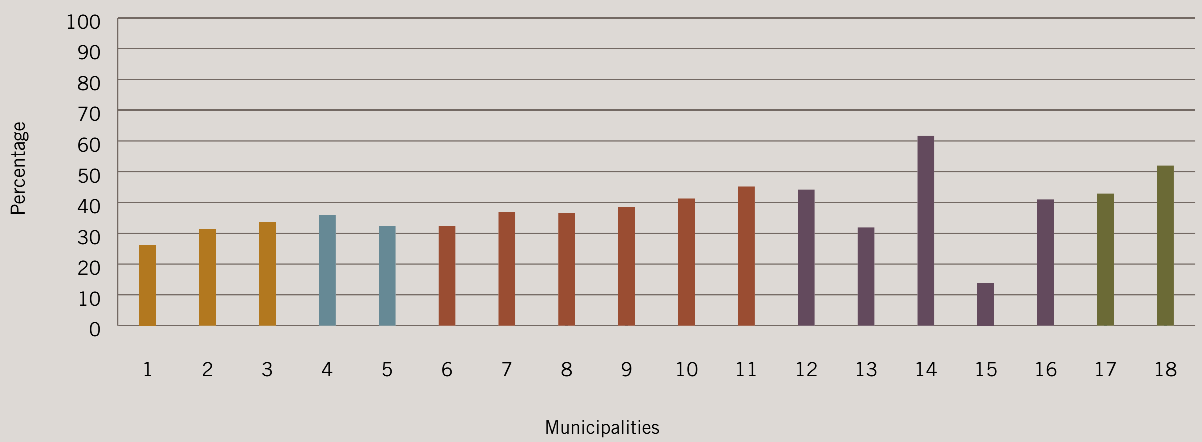
Financial and administrative (in)competence

Our research results illustrate that municipal government suffers from a severe lack of managerial and other skills. In many cases, municipal officials and councillors have limited experience in the fields of municipal service provision and budgeting. As a result of efforts to cleanse the civil service of those appointed by the apartheid regime, many experienced civil servants were lost to the municipalities and replaced by less qualified, often unqualified, candidates. Moreover, many of the financial officers are not able to draw up accurate and reliable budgets, even when the figures they are asked to work with are fixed and straightforward (see COTGA 2009). There are many municipal managers and mayors whose educational backgrounds do not go much beyond the secondary school level, if that (see DPLG 2005). Given that we have discovered several municipal budgets in which budget allocations were simply erroneous and not congruent with the most rudimentary accounting procedures, the question as to the skills levels of municipal financial managers has to be investigated seriously.

Many municipal officials are paid disproportionate amounts relative to their municipality's income, ostensibly in order to provide an incentive for them to remain within the public sector. Most of the cases in quintiles 1–3 fit that pattern, with salaries accounting for more than 35 per cent of the municipalities' expenditure.[14] Figure 1.2.5, which compares the ratio of personnel expenditure to total operating expenditure across the 18 municipalities, shows that in some cases, such as King Sabata Dalindyebo and Umzimvubu, municipal salaries accounted for nearly 62 per cent and 52 per cent of the respective municipalities' operating expenditure budgets. Similarly, in Makana, the pay for officials in the municipality exceeded 45 per cent of operating expenditure. This ratio also exceeded 40 per cent in Beaufort West, Prince Albert, Ngqushwa and Port St John's. Only in the Cape Town Metro[15] and Sakhisizwe was the ratio below the generally accepted norm of 30 per cent. However, the ratio of personnel expenditure to total operating expenditure is extremely low in Sakhisizwe (just 13.7 per cent) and down by nearly 20 per cent from the equivalent figure for 2005/06. This figure seems highly implausible, given the high levels of expenditure on personnel in the other municipalities in quintile 4 and, in all likelihood, represents another example of the lack of capacity in the budgetary process in the municipality. The total staff budgets did account for less than 35 per cent of total operating expenditure in Saldanha, Nelson Mandela Metro, Cape Agulhas, Buffalo City and Nkonkobe, suggesting that at least some of the municipalities studied are moving towards the norm of 30 per cent set by the Treasury.

Most of the municipalities we covered experienced a combination of problems; because the budgets for pay were exceeded and little or nothing was budgeted for capital maintenance, existing services (particularly water maintenance) became increasingly compromised. As these problems worsen and citizens begin to voice their discontent, another series of issues begins to arise – the bureaucratic

Figure 1.2.5: Municipal staff budget as a percentage of total municipal operating expenditure, 2006/07



(Please refer to the graph legend on page 12 for the municipality breakdown)

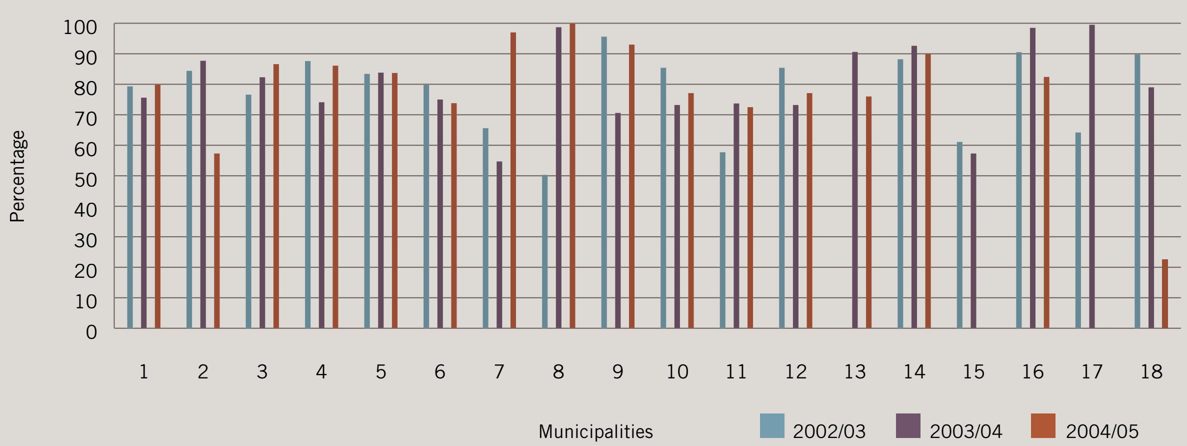
run-around. Departments begin to shift blame away from themselves and onto one another; officials from one department place the blame for incompetence on others; municipal councillors blame municipal managers; municipal managers blame senior or junior staff. Once the blame carousel begins, a loss of morale as well as citizen disaffection begins to set in. Coupled with red tape and bureaucratic intransigence, service levels to citizens drop even further.

One possible consequence of the high levels of personnel expenditure in many of the municipalities is that they are left with little in the way of funding to finance much needed expenditure in areas such as maintenance and infrastructural improvement. Figure 1.2.6 compares the percentage of each municipality's total capital expenditure budget that was devoted to expenditure on infrastructure items in 2002/03, 2003/04 and 2004/05.[16] The figure shows that while most of the municipalities consistently devoted relatively large portions of their total capital expenditure budgets towards expenditure on infrastructure items over the three-year period (with most of the municipalities in quintiles 1–3 devoting 70 per cent or more of their total capital budgets in each year towards expenditure on infrastructure), the municipalities in quintiles 4 (with the exception of Prince Albert and King Sabata Dalindyebo) and 5 exhibited large fluctuations in budgeted infrastructure expenditure across the three years. In addition, Nkonkobe, Sakhisizwe and Port St John's did not budget for any expenditure on infrastructure items whatsoever in 2002/03 and 2004/05 respectively.

Coupled to this scenario is another explosive situation. The high proportion of salary to municipal income means that many municipalities do not make necessary appointments so as to not overspend their budgets. This results in some municipalities operating with more than 40 per cent of the positions in the municipal service departments being unfilled (see Figure 1.2.9). This situation then negatively impacts on the ability of the municipality to fulfil its service delivery mandate purely because it does not have the required technical staff to undertake the task of maintaining existing infrastructure.

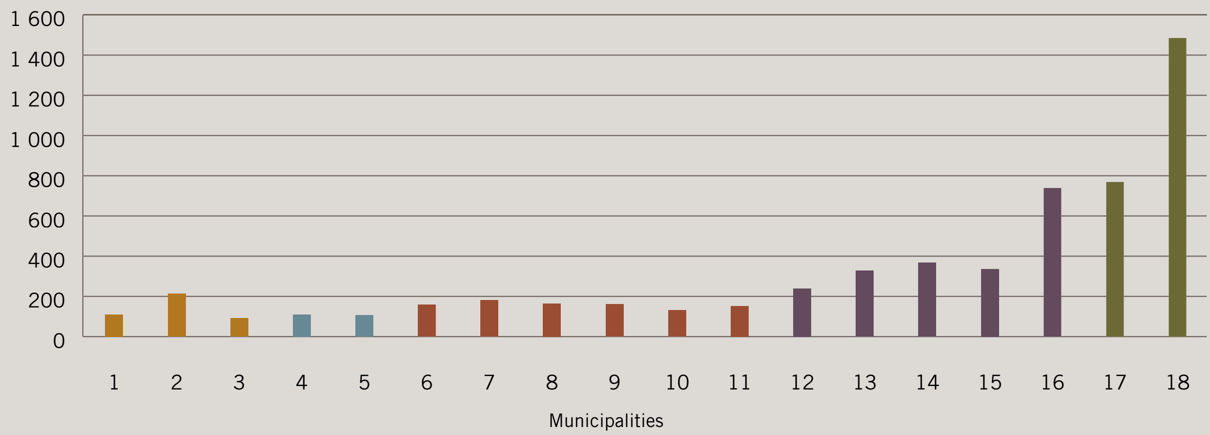
Figure 1.2.7 outlines the staff per capita ratio – representing the ratio of the number of residents in each municipality to each municipal staff member – in each of the 18 municipalities in 2006.[17] There is a clear upward trend in staff per capita ratios across quintiles one to five, with the highest ratios in quintiles four and five (particularly in Ngqushwa, Port St John's and Umzimvubu). While the staff per capita ratios are very similar across the municipalities in quintiles two and three, there are sharp divergences in the ratios across the municipalities within quintiles one, four and five. In quintile one, the staff per capita ratio in Nelson Mandela Metro is nearly double that of the City of Cape Town Metro and more than double that of Saldanha Bay. Similarly, the ratio in Ngqushwa is approximately twice as high in comparison to the ratios in the other Eastern Cape municipalities in quintile four; and in quintile five, the

Figure 1.2.6: Capital expenditure on infrastructure as a percentage of the total capital expenditure budget



(Please refer to the graph legend on page 12 for the municipality breakdown)

Figure 1.2.7: Staff per capita ratios in each municipality



(Please refer to the graph legend on page 12 for the municipality breakdown)

extremely high staff per capita ratio of 1 485 in Umzimvubu is nearly double that in Port St. John's (the municipality with the second highest ratio of staff to residents).[18]

Figure 1.2.8 compares the staff per capita ratios for each municipality in the four core functions: electricity reticulation, water, sanitation and refuse removal.[19] For each of the four functions, the general trend shows the staff per capita ratios increasing as one moves through the municipalities from quintile 1 to quintile 5. In terms of electricity reticulation, there are extremely high ratios in Ngqushwa and Umzimvubu, with only one and two staff members available for the function in each. There are also comparatively high ratios in Nkonkobe, Prince Albert and Sakhisizwe. Similarly, in terms of the potable water and sanitation functions, there are comparatively high staff per capita ratios in Witzenberg and Sakhisizwe. Finally, the staff per capita ratio for the refuse removal function in Oudtshoorn is extremely high, owing to the fact that only two staff members were available for the function in 2006. The staff per capita ratios for this function are also significantly higher in Umzimvubu, Port St John's and King Sabata Dalindyebo in comparison to the remaining municipalities.

Figure 1.2.9 expresses the number of unfilled vacancies in each municipality as a percentage of the total number of approved positions in 2006.[20] The figure indicates that the highest ratios of vacancies to total approved positions are found in Makana, King Sabata Dalindyebo and Witzenberg. In contrast, vacancies are comparatively low in Cape Agulhas, Prince Albert and Sakhisizwe, where less than 10 per cent (just 2 per cent in Prince Albert) of the approved positions in these municipalities remained unfilled in 2006. However, there is no obvious trend across the quintiles.

What these sets of data indicate is that there is a serious lack of administrative, technical and financial skills in the less affluent municipalities we studied in detail. The poorer and more rural the municipality, the more entrenched the levels of incapacity.[21] The problem is particularly serious when municipalities are unable to staff important technical positions. Engineers and other professionals are simply not available to take responsibility for the introduction and maintenance of the core functions in sanitation, electrification, water supply and refuse collection. Moreover, competent financial officers to manage overall or departmental budgets are scarce, and the effects of bad financial oversight and planning not only undermine service delivery but open up all sorts of opportunities to siphon off resources for individual gain, rather than furthering the public good, a subject that is addressed below.

Nepotism and corruption

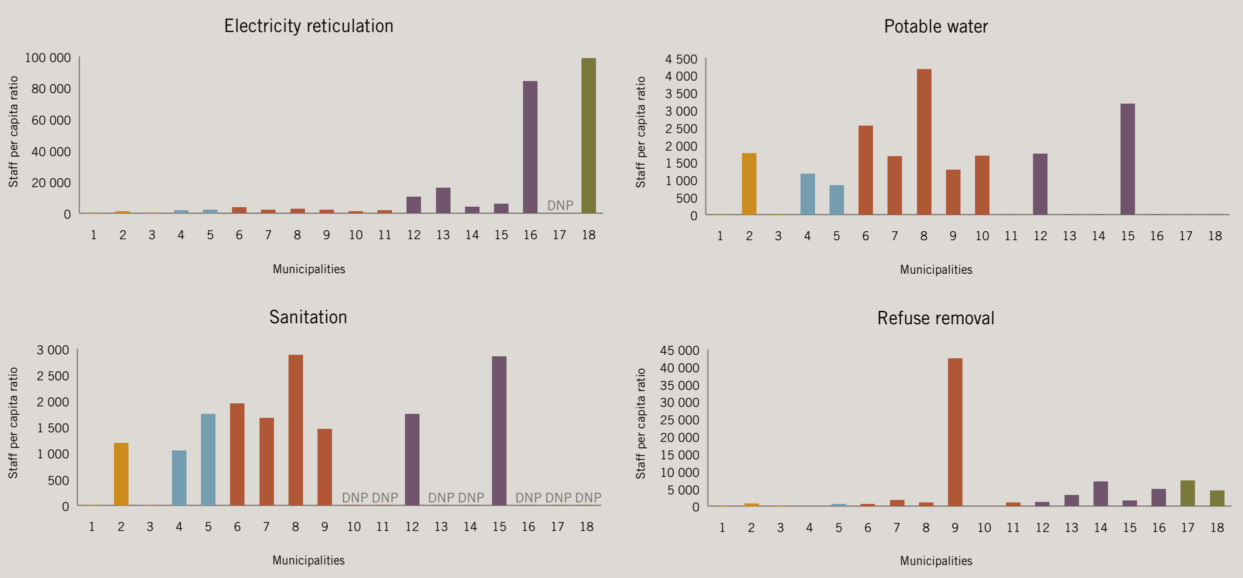
The increasing occurrence of corruption, nepotism and self-enrichment is most worrisome. Doreen Atkinson (2007) describes these developments as the creation and establishment of a 'culture' in which municipal officials, both appointed and elected, view this level of government as a source of income for themselves and their next-of-kin.

Mamphela Ramphele noted in her Steve Biko Memorial Lecture at the University of Cape Town in 2005 that 'party political networks have captured civil service positions for patronage'. She went on to argue that this situation has led to skilled job applicants (often white) being unable to access the positions they apply for, with the consequence that the performance of service delivery suffers. Instead of opening the door for all South Africans to join in the effort to improve the country's economic situation, the new regime had created a means of self-enrichment and patronage for those with the right political connections. Ramphele's latest book, *Laying ghosts to rest* (2008) is an impassioned plea for the reversal of some of these trends.

Party competition for municipal positions is virtually absent in the Eastern Cape. The ANC completely dominates the councils since its electoral support varies from a low of 67 per cent in the Nelson Mandela Metropole to a high of 96 per cent in Ngqushwa. In other words, if there is political competition in these municipalities it is a purely factional one between groups of individuals struggling to gain access to municipal office and the power, patronage and policy-making opportunities that come from holding such office. The situation is quite different in the Western Cape were there is keen competition between the ANC and the DA, as well as a range of smaller parties, some national (such as the ID) and some local citizen associations. In the Western Cape, coalition governments are usual and often dependent on the support of very small parties or even individuals representing a particular community, as is the case in Stellenbosch where the representative from one of the townships (Kayamandi) switched allegiance from the DA to the ANC and thereby gave the ANC control over the municipality in 2008. As a result of such party competition, it is less likely that a particular group of individuals will dominate a council for any length of time, thereby reducing the opportunity for long-term nepotism and corruption.

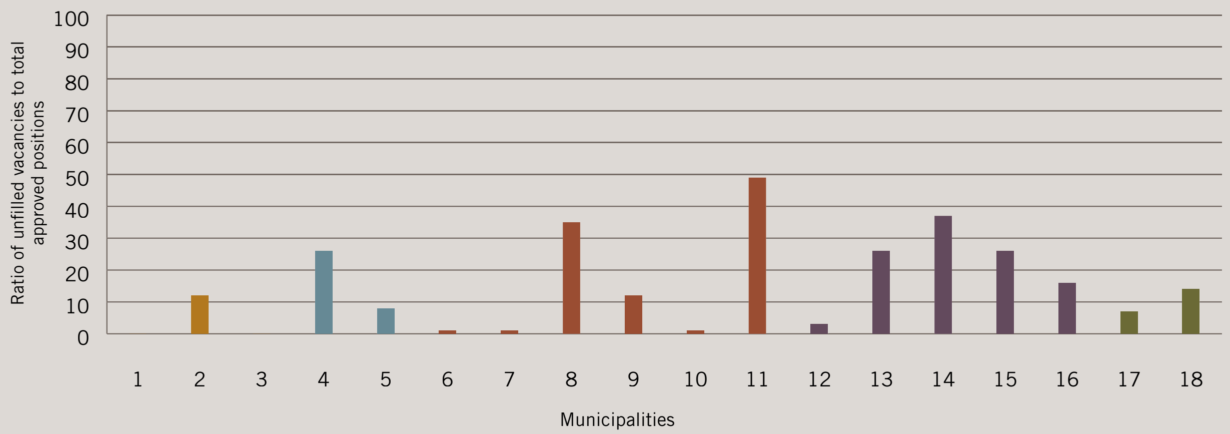
The Public Service Accountability Monitor (PSAM) at Rhodes University, maintains a web site on which all of the reported incidences of corruption or mismanagement in the Eastern Cape are listed, updated and followed through to see what kind of response there is from local and provincial government. In most cases, the incidences drift into obscurity unless PSAM or some other NGO takes up the case and pursues it vigorously through the courts. However, in many cases, the burden of proof is such that it is difficult to establish precisely where and how municipal funds have been misappropriated. There are a myriad of ways in which municipal moneys can be misappropriated: the misuse of mayoral funds; unauthorised transfers from public to private accounts; favouritism in procurement policies; fictitious

Figure 1.2.8: Staff per capita ratios in core functions in each municipality, 2006



(DNP = Did not publish)
(Please refer to the graph legend on page 12 for the municipality breakdown)

Figure 1.2.9: Percentage of unfilled vacancies in the municipalities



(Please refer to the graph legend on page 12 for the municipality breakdown)

tendering; involvement of councillors (or their families) in companies that win tenders; non-payment of council services by councillors and officials; use of council facilities and resources for private or party-political purposes; irregular performance bonuses; and non-compliance with performance agreements, to name a few of the most common approaches.

Between 1996 and 2003, PSAM tracked some 401 cases of corruption in the province; only 22 of these were resolved satisfactorily and only 4 per cent of the misappropriated money was recovered. By 2005, the proportion of cases that found a satisfactory resolution had increased to only 9 per cent (Allen 2005). All of these cases are listed on the PSAM website. For the Eastern Cape alone, there are several thousand unresolved matters. In many cases, officials either under suspicion or under prosecution are placed on leave with pay until their court cases are resolved. On average, a municipal manager in an urban environment commands a salary of upwards of R540 000 a year, and a lower ranked, but still senior, official more than R340 000. In other words, the fact that several municipal officials are on suspension at full pay represents a major financial drain on these municipalities and on either the tax-paying public or the central government that provides the funding. The Auditor General reports that between 1996 and 2002, out of a total budget allocation of R104.5 billion, a staggering R99.7 billion was unaccounted for (Sunday Times 24.08.03). By 2005, the figure had risen to R125 billion (Allen 2005).

CONCLUSION

What the data presented above illustrate is that the mechanisms of government oversight and accountability, and the enforcement of rules, are at best rudimentary and, at worst, non-existent across the spectrum of municipal government. While the legal structure is certainly in place, the implementation of the rules and regulations to ensure financial oversight, accountability and responsiveness to the citizens is rudimentary, apart from the municipalities in quintiles 1 and 2. Throwing money at the problem will achieve only one thing – increase the pool of available resources to those in positions of power and, thereby, the temptation to misuse these funds. The national government now faces the task of implementing its own rules, ensuring that regulations under the various acts are adhered to, that civil servants are trained to perform the tasks they are asked to perform and actually do what they are supposed to do. While the funds may not be adequate to cover all items, they are certainly adequate for the task of building and maintaining infrastructure.

The questions that our findings raise for us are the following. Would it not be more appropriate to leave infrastructural and developmental aspects of national policy with national providers, whether through the institutions of the national state or parastatal institutions like Eskom, which have shown that a national roll-out of facilities is possible? Might it not be more appropriate to free the local level of government

The mechanisms of government oversight and accountability, and the enforcement of rules, are at best rudimentary and, at worst, non-existent across the spectrum of municipal government.

from responsibilities most of the municipalities find impossible to meet in any case and, instead, encourage their democratic role in the new dispensation?

Municipalities in quintiles 1 and 2 have shown the capacity to be both harbingers of services as well as democratic institutions, but the majority of municipalities in the poorer areas have failed so far on both counts. We concur with Friedman and Kihato (2004) that the 'democratic opportunity' offered by the third tier of government has not been taken, purely because it has been burdened with a developmental responsibility it cannot fulfil under current conditions.

NOTES

1 Thomas Koelble would like to thank the National Research Foundation for its generous support through Grant #2069058. Both authors would like to thank Neil Balchin for his research support.

2 Our methodology is broadly consistent with that used by Robert Putnam (1993) in his study of Italian local government. For a more detailed account of our methodology see Koelble and LiPuma (forthcoming). We analysed the 18 cases in terms of their social and economic situation and examined, in some detail, the political elites at the local level in terms of their educational background and the skills sets they brought to local governance.

3 The population figures for 2007 are obtained from Statistics South Africa's Community Survey 2007.

4 The category 'other' represents the residual contribution to total operating income of all other potential sources of income to the municipality (for example, external and internal interest income, levies, internal billing, rent and fines, such as traffic fines and penalties for overdue payment of service charges).

5 The contributions of the various income sources to total operating income in the selected municipalities are broadly consistent with the income profiles in the remaining municipalities in their respective quintiles.

6 See, for instance, the passages on financial management in COGTA (2009: 54–62), where this problem is addressed.

7 Interview with Philip van Ryneveld, May 2005, Graduate School of Business, UCT.

8 This information is drawn from several interviews and conversations we conducted with consultants to the municipalities, such as Andrew Siddle who has worked for more than 50 of the poorest municipalities in the Eastern and Western Cape, Limpopo, KwaZulu-Natal and Mpumalanga.

9 The per capita figures are calculated by dividing each municipality's total operating budget by the total population in that municipality.

10 The figure for Sakhisizwe is one of a series of 'mystifying' budget figures for the municipality, which reflect inconsistencies in the municipality's budgeting process.

11 It is noted in COGTA (2009: 58) that even though the equitable share provides funding for the municipalities, metros and the larger urban municipalities are obtaining the lion's share of funding 'due to their large and growing poor populations'. We would suggest that the reasons here are far more deep-seated and have much to do with skills shortages in the poorer municipalities and their inability to apply for funding in the case of conditional grants.

12 For instance, while the Constitution and certain acts of Parliament may be quite clear about the various responsibilities of local government, many of the mayors, municipal managers and other officials are simply not aware that certain tasks are theirs to perform. When interviewed, hardly a municipal manager knew or cared that air pollution control was part of his or her portfolio! Some laughed nervously at the suggestion that it might be and shrugged their shoulders when asked what the municipality planned to do about it.

13 The annual *Auditor General Report on Local Government*, available on www.info.gov.za, supports the argument that financial controls in the municipalities are ineffective. In the 2008/09 report, the Auditor General claims that 77 per cent of all municipalities across the country did not comply with financial rules and regulations pertaining to them. There are very few municipalities that obtain an unqualified audit, and many fail to comply with the requirement of submitting their budgets in a timely manner.

14 It is generally accepted that approximately 30 per cent of the total municipal budget should be spent on staff salaries (Hong 2006).

15 This figure is for the 2005/06 financial year.

16 The balance of the capital budget allocation in each municipality (total capital expenditure less total expenditure on these infrastructure items) would have been divided between expenditure on community items (such as sports fields and libraries), other assets (such as plant and equipment, and office equipment) and specialised vehicles (such as refuse, fire and ambulance vehicles).

17 The staff per capita ratios are calculated from the 2001 Census population figures. The figures for the total number of municipal staff are for 2006.

18 The very high ratio in Umzimvubu results from the reality that in 2006 there was a total of only 133 municipal staff members spread across the municipality's total population of 197 550 residents.

19 No equivalent data were available for the two metropolitan municipalities (City of Cape Town and Nelson Mandela Bay). 'DNP' indicates that the municipality did not perform the function in 2006.

20 Once again, no comparative data were available for the two metropolitan municipalities.

21 During one of our interviews, a rural municipal manager remarked that 'it is impossible to even get an engineer in this area…They do not want to live here. I don't blame them.'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ECONOMIC POLICY FROM A HUMAN RIGHTS PERSPECTIVE: HOW DOES SA MEASURE UP?

Nancy Dubosse

INTRODUCTION

There is little disagreement over the standards that our societies should strive towards to achieve human development. Most of the nations of the world came together in 2000 and adopted the Millennium Declaration, which entailed eight development goals (known as the Millennium Development Goals or MDGs). With a fast-approaching deadline in 2015, they include gender parity in education, reductions in maternal mortality rates and universal literacy. The MDGs are an example of what, in the human rights framework, are called *obligations of result*, which requires states to 'achieve specific targets to satisfy a detailed substantive standard'. Meeting the MDGs is as relevant for middle-income countries like South Africa as it is for low-income countries, as 40 per cent of the world's poor live in the former (Vos, Sanchez & Inoue 2007).

To some extent, the modern human rights ideology is a reaction and a response to the generations of endemic poverty, exploitation and impoverishment that inspired the Millennium Declaration. Rights are claimable entitlements, which range from the right to housing, health care and education to the right to work, the right to information and the right to religion, to name a few. In this way, they go beyond the MDGs in identifying the minimum standards necessary to ensure quality of life.

These rights were elaborated first in the International Covenant on Economic, Social and Cultural Rights (ICESCR), ratified in 1966. As a signatory thereto, South Africa effectively has altered its social contract to make the realisation of these rights its *raison d'être* and, in doing so, has committed itself to adopting the appropriate policies and programmes in pursuit of that goal.

This initial commitment is reinforced not only by obligations of result but also by *obligations of conduct*, which are meant to guide governments on how to achieve the realisation of rights. An obligation of conduct requires 'action reasonably calculated to realise the enjoyment of a particular right'.

How are governments to go about resourcing the monies needed for the range of development goals? Meeting these goals is a monumental financial undertaking, and development assistance in the form of grants cannot cover the full cost. Because resource constraints do not relieve governments of their obligations, they must engage in internal resource mobilisation. Governments can finance their development programmes from trade revenue, tax receipts or borrowing.

The utilisation of domestic resources is obviously subject to political constraints. The more a government borrows to finance its development strategy, the more the fiscus is crowded with debt-repayment obligations, and the less space there is for the negotiation of sector allocations. Therefore, questions arise regarding the sustainability of taking on loans for development, as indebtedness subjects planning to an arena of competing needs and interests.

Concerns regarding sustainability have placed a spotlight on process issues, the obligations of conduct. Human rights adherents reject certain outcomes regardless of whether they make most people better off, if the way in which development programmes are designed and implemented does not conform to the human rights principles of participation, transparency and equality.

Auditing anything implies making an assessment against some standard. Here, the human rights standard is used to examine South Africa's borrowing policies and debt management, in order to determine if they meet the standards laid out in the ICESCR. Therefore, while borrowing for public infrastructure, for example, has some tangible impacts on the economy, attention here is devoted to the process of taking out the loan itself. In effect, this is a process assessment, as opposed to an impact assessment.

What follows is an overview of the state of public indebtedness in South Africa, with a focus on municipal debt. The theoretical framework for the audit is laid out, followed by the audit itself. The article concludes with a summary of findings.

BRIEF OVERVIEW OF THE FISCAL FRAMEWORK IN RELATION TO DOMESTIC DEBT IN SOUTH AFRICA

Like any other financial entity, the state collects revenue from a variety of sources and incurs expenditures. The resource envelope for South Africa comes from personal income and corporate taxes, value-added taxes and trade receipts. Despite this diversified portfolio, the government expends nearly all of its revenue.

For obvious reasons, revenue is not as predictable as expenditures, and the government may find itself in the position of having to borrow to meet its social obligations when revenue is insufficient. It may borrow from external markets, in which case the loans would be repayable in a foreign currency. From 2003 to 2007, external debt increased by 78 per cent, from US$38.1 billion to US$68 billion (Reserve Bank 2010).

Table 1.3.1 displays the total debt stock (domestic and foreign) as a percentage of the country's productivity (GDP) indicator, as well as that proportion of debt that must be serviced in a foreign currency.

Table 1.3.1: Government fiscal stance, 2005–2009

Year	Government debt, percentage GDP	External interest payments, percentage exports
2005	34.6	3.8
2006	32.6	4.5
2007	28.3	4.7
2008	27.2	4.8
2009	30.8	5.9

Source: IMF (2010).

As of 31 August 2009, the projected total domestic and foreign debt obligations to be repaid were R22.2 billion (2009/10), R16.8 billion (2010/11), R25.2 billion (2011/12) and R73.2 billion (2012/13) (National Assembly 2009).

As a member of the Southern African Development Community, South Africa has agreed to certain macro-economic convergence criteria, including a limit on public debt, which may not exceed 60 per cent of GDP. The Treasury's non-binding objective for public debt is below this limit at 50 per cent of GDP (OECD 2010). According to the Treasury's own baseline scenario, net public debt is expected to reach 53.6 per cent of GDP by the end of the 2012/13 financial year (OECD 2010). The Treasury has undertaken a long-term modelling of the debt trajectory, and, based on a long-term average GDP growth rate of 3.5 per cent, debt is forecast to rise to 44 per cent of GDP in 2015/16 (National Treasury 2010).

Borrowing at the municipal level

There are 277 municipalities and 56 municipal entities in South Africa, and they are responsible for financing the delivery of basic services including electricity, water, sanitation, refuse removal, municipal roads, parks and recreational facilities. Generally, municipalities are able to raise between 60 and 95 per cent of their own revenue (depending on the size and type of municipality). The balance is financed through intergovernmental grants, provided by both the national and provincial spheres of government, borrowing and donor funding.

Municipalities have the ability to raise their own revenue through property taxes, value-added tax and user charges for the provision of utilities. In addition, they may borrow according to guidelines set out in the Municipal Finance Management Act 56 of 2003 (MFMA). The act limits short-term borrowing to the bridging of operating cash shortfalls and to assistance with capital requirements for the current financial year, on the basis of anticipated income streams, grants or long-term debt in waiting. It requires short-term debt to be paid off annually. Long-term borrowing is limited to the funding of capital investments.

In 2002, the total outstanding debt of municipalities amounted to R20.2 billion. Together, Durban and Johannesburg accounted for 55 per cent of this amount (Derichs & Einfeldt 2006). In 2006, total outstanding debt remained more or less unchanged at an amount of around R18 billion. The highest total outstanding debt is the City of Johannesburg's R5.3 billion, followed by eThekwini (Durban) with R3.6 billion and the City of Cape Town with R2.5 billion (Liebig et al. 2008).

Approximately, 95 per cent of municipal debt is for backlog infrastructure investment projects. The Development Bank of Southern Africa estimates that the total cost of providing all South Africans with basic services amounts to an additional R57 billion for the period from 2005 to 2014. The most needed investments are for roads, sanitation and water infrastructure. At the current rate of investment, the infrastructure backlog for basic services will be resolved only by 2065 (Liebig et al. 2008).

THE FRAMEWORK FOR AN ECONOMIC POLICY AUDIT[1]

Because of its ahistorical approach, economics proper does not entertain the notion of rights. Among its core assumptions are that agents are (*a priori*) free, all have equal access to markets, and markets do not discriminate. The only right *inferred* in economics is the right to exclusivity (ownership), without which market transactions would be difficult and fraught with contention. When the market malfunctions, it is systemic, not because of human error or mal-intention.

Human rights theory shifts the focus of the state from economic growth or market regulation to the fulfilment of the rights of its constituents. This, in itself, is a revolution of sorts. If the government were to truly take the fulfilment of rights as its primary mandate, it would be reorganised for the realisation of such rights in the form of service delivery. That the government should exist solely for the advancement of its citizens is an idea that has not yet triumphed.

In fact, mainstream economics does not place emphasis on the social impacts of production, consumption and distribution, as its focus is on achieving efficiency in these activities. The outcome is never unjust or unfair in this respect, but it may not be optimal. Hence, economics allows for the existence of unemployment and poverty, which is no one's explicit fault or failure of obligation.

Alternatively, the fulfilment of rights as a desired outcome directs attention at the principal agent responsible for moderation and enforcement, the government. Insofar as claims can be lodged against the government but not the market, even where there is market failure (essentially one or more unsatisfied conditions), the attention of economists is directed towards public policy.

This paper attempts to analyse economic policies using a normative framework against the desired welfare outcomes of a society. The appealing feature of the human rights framework is that it emphasises process as much as outcome, with the values of participation, transparency, equality and non-discrimination. The applicable right here is the right of the citizen, which entails participation and engagement with the public fiscus.

Insofar as this article is concerned with principles that guide the processes of development of economic policy, the focus falls solely on obligations of conduct. The ICESCR's 1997 Maastricht guidelines detail what constitute violations of economic, social and cultural rights by the state, whether by way of commission or omission. Violations by acts of commission include:

- the adoption of legislation or policies that are manifestly incompatible with pre-existing legal obligations relating to these rights, unless it is done with the purpose and effect of increasing equality and improving the realisation of economic, social and cultural rights for the most vulnerable groups;
- the adoption of any deliberately retrogressive measure that reduces the extent to which any such right is guaranteed; and
- the reduction or diversion of specific public expenditure, when such reduction or diversion results in the non-enjoyment of such rights and is not accompanied by adequate measures to ensure minimum subsistence rights for everyone.

A human rights approach to poverty also requires the active and informed participation of the poor in the formulation, implementation and monitoring of poverty reduction strategies.

Violations by acts of omission include:

- failure to utilise the maximum available resources towards the full realisation of the Covenant; and
- failure to meet a generally accepted international minimum standard of achievement, which is within its powers to meet.

Generally, it is understood that to mitigate these acts of commission and omission the state must incorporate the working principles of participation in order to ensure inclusiveness, transparency in order to ensure accountability, and equality and non-discrimination in order to ensure evenness in development.

Regarding accountability and poverty reduction strategies, there are three key questions. First, in relation to a particular duty-holder, are there accessible, transparent and effective mechanisms of accountability? Second, looking at the jurisdiction as a whole, are there accessible, transparent and effective mechanisms of accountability within that jurisdiction? Third, are the mechanisms of accountability accessible to the poor?

Discrimination and inequality may arise from express legal inequalities in status and entitlements, from policies that are blind to the needs of particular people, or from social values that shape relationships within households and communities.

A human rights approach to poverty also requires the active and informed participation of the poor in the formulation, implementation and monitoring of poverty reduction strategies. The right to participation is a crucial and complex human right that is linked inextricably to fundamental democratic principles (UNOHCHR 2004).

Taking into consideration the obligations of conduct and the guiding principles, the questions in Table 1.3.2 can be raised in connection with South Africa's borrowing practices and debt management frameworks.

Table 1.3.2: Audit framework	
Principles guiding obligations of conduct	**Application to loan contraction and debt management policies**
Participation/inclusiveness	• Has the government established structures and processes to facilitate civil society participation in resource mobilisation discussions and forums at all levels of government? • What is the degree of inclusion and engagement of Parliament/civil society?
Transparency	• Has the government established structures and processes to facilitate civil society access to information on revenue at all levels of government? • What accountability mechanisms are in place to monitor loan contraction and debt management?
Equality/non-discrimination	• Is the government raising revenue in a way that is likely to facilitate people's enjoyment of their rights, or is it discriminatory? • How do borrowing practices interfere with the progressive realisation of social and economic rights?

THE AUDIT OF SOUTH AFRICAN MUNICIPAL BORROWING POLICIES AND PRACTICES

Two pieces of legislation guide the process of loan contraction and resource mobilisation and allocation in South Africa: the Public Finance Management Act 29 of 1999 (PFMA) and the MFMA. Both have sections on loan contraction.

In terms of the PFMA, it is only through the Minister of Finance that the government may borrow money, or issue a guarantee, indemnity or security. Such money may be borrowed to finance national budget deficits; to refinance maturing debt or a loan paid before the redemption date; to obtain foreign currency; to maintain credit balances on a bank account of the National Revenue Fund; to regulate internal monetary conditions should the necessity arise; or for any other purpose approved by the National Assembly by special resolution. A public entity authorised to borrow money must annually submit to the minister a borrowing programme for the year, and may not borrow money in a foreign currency above a prescribed limit. The repayment of money borrowed, the interest payable on the money borrowed, and any costs associated with such borrowing are direct charges against the National Revenue Fund.

Under the MFMA, a municipality may incur either short-term or long-term debt to bridge shortfalls or capital via a resolution of the municipal council, signed by the mayor, who has approved the debt agreement, provided the accounting officer has signed the agreement or other document, which creates or acknowledges the debt to be repaid from specific funds to be received from enforceable allocations or long-term debt commitments. The debt must be denominated in rands and neither the national nor provincial government may guarantee the debt of a municipality or municipal entity.

Participation

- Has the government established structures and processes to facilitate civil society participation in resource mobilisation discussions and forums at all levels of government?
- What is the degree of inclusion and/or engagement of Parliament/civil society?

A major contribution of a human rights approach to poverty reduction is the idea of the empowerment of poor people, expanding their freedom of choice and points of engagement in order for them to structure their own lives (UN 2004). At the municipal level of government, this requires strong leadership and clear vision. For democracy to materialise at the municipal level, mayors must oversee a process by which citizens are ensured meaningful participation so as to lead to improved responsiveness and accountability (see IDASA 2010).

Framework for participation

The PFMA does not create opportunities for citizen engagement in the debt management framework at national level. However, the national budget framework caters for citizen participation via public consultations convened by Parliament, after the budget has been tabled by the executive. Ultimately, it is Parliament that can appropriate money for each financial year for the requirements of the state. Civil society submissions are confined to revenue expectations and allocations to the departments.

The MFMA, however, contains specific provisions for citizen engagement in municipal borrowing. It stipulates that for long-term debt, the accounting officer has, at least 21 days prior to the meeting of the council at which approval for the debt is to be considered, to make public an information statement setting out particulars of the proposed debt, including the amount of the proposed debt, the purposes for which the debt is to be incurred and particulars of any security to be provided. The public, the National Treasury and the relevant provincial treasury must be invited to submit written comments or representations to the council in respect of the proposed debt. The accounting officer must also have taken a copy of the information statement to the municipal council with particulars of the essential repayment terms, including the anticipated debt repayment schedule, and the anticipated total cost in connection with such debt over the repayment period.

Adherence at municipal level

Despite what appears to be a clear and impressive process framework of citizen engagement in the MFMA, there does not seem to be much citizen participation in practice at local level.

One of the reasons for this is that there are several concurrent and potentially competing processes at municipal government level. The Municipal Systems Act 32 of 2000 created the integrated development plan (IDP) process, facilitated by the municipal council, which is designed to achieve the highest level of inclusiveness with respect to a municipality's development priorities. The IDP process predates the MFMA and, although it is not nullified by the MFMA, it has not been mainstreamed into the MFMA effectively.[2] Thus, there has not been much integration and alignment of the strategic planning process and the requisite budgeting.

Another structure at municipal level, which has not been integrated successfully, is the ward. Wards are also not mentioned in the MFMA. Ward committees were created to feed into the municipal council framework but, although operational, they do not yet function properly as a communication channel between the council and citizens.

Participation has also been hindered by a lack of capacity and a lack of a culture of consultation, which has limited the effectiveness of all three mechanisms. The Auditor-General's reports repeatedly refer to a lack of leadership and skills regarding the implementation of the MFMA. The same critique has been launched against the IDP process:

> Because many municipalities did not know how to drive IDPs, they were also at a loss as to how to meaningfully draw diverse interest groups, and especially organisations representing the poor, into formal local government processes. There was no shortage of processes or forums to engage citizens but these processes were not necessarily facilitated properly and were not linked to specific decisions or resource allocations. (Pieterse 2007)

In 2007/08, the Local Governance Unit of IDASA and its partners created and implemented a local governance barometer (LGB) in 16 South African municipalities to appraise the state of governance in these municipalities. The LGB measured, among other things, indicators of good governance, participation and civic engagement (in particular, community participation in the development, monitoring and evaluation of municipal governance processes, systems and policies). The following were the general findings concerning the participation indicator:

- Most municipal councils have not communicated their development vision and plan as reflected in the IDP effectively to their citizens. As a result, in most municipalities, there is a weak relationship between the IDP and the annual budget/expenditure as reflected in the Service Delivery and Budget Implementation Plans, and within most municipal councils there is no consensus on service delivery priorities, resulting in inefficient use of limited resources.
- Communication on progress and audit reports and on remedial action from the administration to both councillors and citizens is minimal; and, when provided, it is usually presented in a way that is too technical for the ordinary citizen or councillor to understand.
- In most municipalities, there are no mechanisms in place for citizens to review council resolutions or to lodge complaints. If such mechanisms do exist, they do not function properly, as complaints are not dealt with systematically.
- Consultation with communities and citizens is usually limited to the compulsory consultations specified in the various acts (IDPs and budgets) and, thus, is done only for compliance. Conclusions from consultations are not recorded and ward or community plans are seldom included in the municipal plans or budgets, nor is feedback to the communities provided on why their plans have not been included. (Memela et al. 2008)

Citizens lack detailed understanding of the workings of local government and do not know how to lobby and advocate effectively to influence plans and decision-making.

One of the implications of the obligation of municipalities to facilitate participation is building the capacity of citizens to do so. IDASA found that while it was documented that civil society has space to be heard in the planning process, citizens lack detailed understanding of the workings of local government and do not know how to lobby and advocate effectively to influence plans and decision-making. Also, what is perceived as a lack of interest in planning and budgeting is really a sense of intimidation regarding the technicalities surrounding the budget.

Thus, the government has established intricate structures and processes to ensure civil society participation in local planning and budgeting exercises. However, they have not been operationalised, one of the reasons for this being a lack of capacity. Another reason may be that the roles and responsibilities of the stakeholders across the three mechanisms are not sufficiently clear, creating confusion and perhaps disillusionment.

Transparency

- Has the government established structures and processes to facilitate civil society access to information on revenue at all levels of government?
- What accountability mechanisms are in place to monitor borrowing and debt management?

Framework providing for transparency

The PFMA created two offices relevant to the subject of accountability, those of the Auditor-General and the accounting officer. The accounting officer for a department, trading entity or constitutional institution must keep full and proper records of its financial affairs, in accordance with any prescribed norms and standards, and must prepare and submit financial statements for each financial year in accordance with generally recognised accounting practice. Submissions are required to go to the Auditor-General, Parliament and the National Treasury. The Auditor-General may investigate any public entity, or audit the financial statements of any public entity.

According to the MFMA, the accounting officer of a municipality must place on the municipality's web site a range of documents including all budget-related policies, service delivery agreements and borrowing contracts. By no later than ten working days after the end of each month, he or she must submit to the mayor of the municipality and the relevant provincial treasury a monthly budget statement reflecting particulars including actual borrowings. Within 30 days after the end of each quarter, the provincial treasury must make public as may be prescribed a consolidated statement in the prescribed format on the state of municipalities' budgets per municipality and per municipal entity. The MEC for finance must submit such consolidated statement to the provincial legislature no later than 45 days after the end of each quarter.

There appears to be a clear vertical line of accountability within the Finance Department, in which municipal accounting officers report consistently and directly to provincial treasuries, which, in turn, report to the National Treasury. For example, the accounting officer of a municipality must by 25 January of each year submit the mid-year budget and performance assessment, in which he or she assesses the performance of the municipality during the first half of the financial year, taking into account the financial statements against the municipality's service delivery targets and performance indicators. The accounting officer is required to submit a report to the mayor, the National Treasury and the relevant provincial treasury.

Every municipality must prepare an annual report, which includes a report on performance against the budget in order 'to promote accountability to the local community for the decisions made throughout the year by the municipality or municipal entity'. The municipal council must consider the annual report and, by no later than two months from the date on which the annual report was tabled in the council, adopt an oversight report containing the council's comments on the annual report, which must include a statement as to whether the council approved, rejected or referred the report for revision. The meetings of the municipal councils must be open to the public, with a reasonable time allowed for the discussion of any written submissions received from the local community.

The accounting officer must also attend council and council committee meetings where the annual report is discussed, for the purpose of responding to questions concerning the report, and submit copies of the minutes of those meetings to the Auditor-General, the relevant provincial treasury and the provincial department responsible for local government in the province.

Adherence at municipal levels

Recently, a review was undertaken of the most recent reports (2008/09) of the Auditor-General, which included a national report, reports for each province and a consolidated municipal report (A-G 2009a). One striking observation is that non-compliance with reporting requirements increases dramatically at lower levels of government (see Table 1.3.3).

Table 1.3.3: Transparency indicators

	National	Provincial	Municipal
Non-compliant with respect to regulatory requirements	44%	62%	91%
Reported performance information that was not useful	47%	32%	57%
Reported performance information that was not reliable	44%	56%	50%

Sixteen national departments (62 per cent) did not comply with provisions of the PFMA Treasury regulations. Nearly half of the national entities attracted qualifications (findings of non-compliance) related to payables and borrowings. These were characterised by inadequate control systems over the allocation and utilisation of special project income and unknown deposits, and the lack of documentation to support the valuation and accuracy of payables. Similarly, 73 per cent of provincial departments were cited for non-adherence to the PFMA, Treasury regulations and other legislation. Some 78 provincial departments had not performed one or more duties prescribed by legislation. The common root cause of the increase in qualifications was the non-provision of supporting documentation during the audit. According to the Auditor-General, the overall performance of departments on statement of financial performance matters is deteriorating.

The findings at municipal level were no better. A total of 118 municipalities (87 per cent) were qualified on liabilities (payables and borrowings), an increase from 69 per cent in 2007/08. Payables at year-end could not be verified due to inadequate record-keeping, resulting in a lack of supporting documentation and reconciliation, and incomplete accounting for accruals.

Unauthorised expenditure by a municipality includes the overspending of the total amount appropriated in the municipality's approved budget, expenditure of money appropriated for a specific purpose otherwise than for that specific purpose, spending of an allocation otherwise than in accordance with any conditions of the allocation, and a grant by the municipality otherwise than in accordance with the MFMA. Unauthorised expenditure exceeding R2.4 billion was incurred by 28 per cent of municipalities and municipal entities.

Section 54(1) of the MFMA directs that municipal mayors must, *inter alia*: check whether the municipality's approved budget is implemented in accordance with the service delivery and budget implementation plan; issue any appropriate instructions to the accounting officer to ensure that the budget is implemented in accordance with the service delivery and budget implementation plan, and that spending of funds and revenue collection proceed in accordance with the budget; and identify any financial problems facing the municipality, including any emerging or impending financial problems.

One-third of municipalities did not comply with section 54(1) of the MFMA. Most of these municipalities were in the Northern Cape (28 per cent), the Free State (23 per cent), Limpopo (19 per cent) and KwaZulu-Natal (15 per cent).

Seventeen percent did not submit the monthly budget statements in terms of section 71 of the MFMA, which requires the accounting officer to submit a report to the mayor and the relevant provincial treasuries by no later than ten working days after the end of each month, reflecting, *inter alia*, an explanation of any material variation from the service delivery and budget implementation plan.

Thirty-nine per cent of municipalities did not submit a report to the mayor, National Treasury and the relevant provincial treasury by 25 January of each year on the municipalities' service delivery performance during the first half of the financial year and the service delivery targets and performance indicators set in the service delivery and budget implementation plan, as required by section 72(1)(b) of the MFMA. The highest incidence of non-submission of monthly budget statements was by 19 municipalities in the Eastern Cape (53 per cent), 19 in the Northern Cape (66 per cent) and 17 in the Free State (74 per cent).

The Auditor-General's findings highlighted what is a reinforcing relationship between accountability through transparency and participation. The opinion rendered was that the preparation, submission, approval and evaluation of MFMA-prescribed reports would have assisted the affected municipalities in identifying deficiencies in financial management and service delivery for corrective action in a timely manner.

Indeed, the government has in place the appropriate structures and regulations pertaining to borrowing and transparency related to public finance in general. However, the regulatory framework itself does not necessarily translate into good practice. The Auditor-General's own findings repeatedly cite a leadership vacuum at all levels of government. There also does not appear to be a political solution to dealing with non-compliance, as the regulatory mechanism provides for criminal proceedings but offers no incentive for pursuing such an avenue. Also mentioned was the lack of availability of credible, reliable and consistent information. All of these are required in order to breathe life into the system.

Equality and non-discrimination

- Is the government raising revenue in a way that is likely to facilitate people's enjoyment of their rights?
- How do borrowing practices interfere with the progressive realisation of social and economic rights?

A central issue in the debt sustainability debate is the potential trade-off between incurring debt for development purposes and simultaneously having to maintain a sustainable debt burden, which, in and of itself, steers money away from social programmes. It is generally thought that the short-term costs or cutbacks in social spending should amount to less than the long-term growth potential. However, should revenues not meet forecasts and the debt become unsustainable, fiscal tightening is almost always the recommended policy whenever projections show that the debt ratio is on a rising path, and the burden invariably falls on primary spending (Akyuz 2010).

Framework which provides for equality and non-discrimination

What informs public finance management (and borrowing practices, in particular) about issues concerning equality and non-discrimination? This is where the difference in the goals of economics and human rights is most palpable. Economists analyse public finance management practices in order to further the objective of economic growth, whereas human rights practitioners work towards the realisation of rights as the government's first and foremost responsibility. Within the human rights framework, the principles of progressive realisation and minimum core obligations should guide the government's decisions on whether and how much to borrow in order to promote equality and non-discrimination.

The ICESCR acknowledges the constraints of time and resources on the fulfilment of rights, and provides for the progressive realisation of such. However, the notion of a progressive realisation of rights cannot be interpreted by legislators as giving them the freedom to comply as and when they see fit:

> The idea of progressive realisation has two strategic implications. First, it allows for a time dimension in the strategy for human rights fulfilment by recognising that full realisation of human rights may have to occur in a progressive manner over a period of time. Second, it allows for setting of priorities among different rights at any point in time since the constraint of resources may not permit a strategy to pursue all rights simultaneously with equal vigour. (UNOHCHR 2004)

As part of the ICESCR, states have also signed on to what are regarded as 'minimum essential levels of rights' or core obligations that must be met without delay. These non-negotiable rights include the rights to food, housing, health and education. The United Nations Office of the High Commissioner for Human Rights (UNOHCHR) describes these rights as follows:

> Core obligations have a crucial role to play in relation to anti-poverty strategies in two respects. First, as a State prepares its PRS [Poverty Reduction Strategy], the core obligations provide the basic normative framework around which the strategy should be designed. If a strategy does not reflect these core obligations, it is inconsistent with the State's legally binding obligations. Second, when grouped together, the core obligations of different human rights establish an international minimum threshold that all strategies should be designed to respect. (UNOHCHR 2004)

In a nutshell, no trade-offs are permitted within the set of minimum core obligations (the right to life, food and health).

Adherence to equality and non-discrimination

What would adherence to equality and non-discrimination look like at the municipal level? It requires equal opportunity to participate in developmental activities (planning and budgeting) and equal access to municipal services (Memela 2008). Since participation is dealt with above, this section focuses on access.

The impact of the borrowing and debt management on equality and non-discrimination can be analysed in two ways.

Firstly, the level of debt, itself, along with its service costs, crowds out social spending and, thus, access to and enjoyment of essential services.

The private sector has been the major supplier of credit (about 60 per cent) to municipalities. This market has not grown, however, as the municipal debt owed to the private sector has remained at R11–R12 billion since 1997, whereas debt owed to public sector institutions grew from R5.6 billion in 1997 to R8.1 billion in 2000. In particular, the Development Bank of Southern Africa's municipal debt stock increased from R2 billion to R6 billion over the same period (Saayman & Horn n.d.). There is R18.2 billion outstanding municipal debt in South Africa (Liebig et al. 2008). In addition, approximately R1.7 billion was requested in extra appropriation by municipalities for capital expenditure on stadiums. The 2010 World Cup host cities also took out long-term loans, with a national government commitment to assisting with the interest payments in 2009/10 and 2010/11 (National Assembly 2010).

The Financial and Fiscal Commission (FFC) has noted an increase in the debt service cost compared to other items of the budget. It has noted, in addition, a 'rapid increase in the public sector wage bill'. The FFC warns that large amounts of debt, which are driven by current consumption as opposed to the financing of capital assets, are known to ultimately compromise future economic growth and destabilise the domestic financial system. It cautions that borrowing should be restricted to the financing of infrastructure investment in order to secure a better life for future generations (FFC 2010).

The City of Cape Town has a total revenue of R17 billion, and a net debt of R3.9 billion, consisting mainly of domestic bonds and loans. In 2009, its debt servicing costs were 6 per cent of operating revenue, and the debt stock itself was 28.7 per cent of operating revenue, up from 17.1 per cent in 2007. In addition, personnel costs for 23 000 municipal staff make up 35 per cent of operating expenditures. Lastly, the Cape Town stadium is going to cost the city R46.5 million in annual operational and maintenance costs. (See MIS 2010.)

Municipal debt constrains available resources and threatens the progressive realisation of social and economic rights. For example, Cape Town has a population of 3.5 million, with an unemployment rate of 23.4 per cent. The percentage of poor households without access to basic services is 22 per cent (Liebig et al. 2008). The burden of the debt stock itself amounts to R1 114 per capita. Together, debt servicing and personnel costs consume just under 70 per cent of operating revenues, leaving approximately R1 457 of city revenue per capita, reducing the resource envelope for social services by more than a billion rand in just two years. No evidence could be obtained to ascertain whether residents were informed of and understood the implications of increased borrowing.

Secondly, the interest payments that a municipality incurs as a result of borrowing may crowd out spending on essential social services, particularly those that historically have excluded marginalised or vulnerable groups.

According to the Auditor-General's report (A-G 2009b), underspending of budgets impacted negatively on service delivery, especially in the areas of housing, water services, electricity services and community facilities. Sixty municipalities in South Africa underspent government grants, for an amount totalling R1.63 billion. In the Western Cape, for example, 11 out of 29 municipalities underspent government grants. About 42 per cent of the departments within the province materially underspent their budgets by a total amount of R584 million, which had an impact on service delivery in certain instances, such as in the Department of Health, which underspent by R214.9 million.

Based on the level of underspending recorded, there was not a crowding out of financial resources but a crowding of human resources and capacity to implement social programmes. The resources required for borrowing for investment in capital infrastructure are not limited to financial resources; they also require human resources for implementation and oversight. Such human capital is obviously scarce at the municipal level, considering the repeated citations by the Auditor-General on leadership and lack of capacity among accounting officers. Under-expenditure *prima facie* violates both the progressive realisation of human rights and the minimum core obligations, since plans are not fully implemented.

CONCLUSION

The primary goal of government, according to the human rights framework is the realisation of rights. In endeavouring to fulfil, protect and promote those rights, the process matters as much as the outcome. The human rights framework prescribes certain principles, which are meant to guide the way in which these rights are realised: participation, transparency and equality/non-discrimination.

Borrowing in order to fulfil development objectives is widespread and indeed necessary, given the resource constraints and the extent of poverty that exists. This article is an attempt to audit South Africa's borrowing policies and debt management framework to ascertain whether and how well it fits into the human rights agenda, to assess the degree to which it has incorporated the above principles.

With respect to participation, the framework is in place to integrate citizens into planning and budgeting exercises, but the capacity of citizens to participate is lacking.

Regarding transparency, there is a well-defined reporting mechanism between accounting officers, provincial treasuries and the National Treasury. However, non-compliance with the reporting requirements was as high as 91 per cent for municipalities, with half reporting information that the Auditor-General considered unreliable.

It is reasonable to conclude that the majority of local communities did not receive the information needed to give feedback on borrowing. The Auditor-General found that mayors had neglected their duties in one-third of the municipalities. Mayors, themselves, appear to be incapacitated to act, with 39 per cent of accounting officers not having submitted reports to them.

Thus, participation and transparency are reinforcing principles – one cannot exist without the other. This also underscores the fact that the right to information is a leverage upon which other rights can subsequently be claimed.

Equality and non-discrimination entail both the ideas of non-retrogression in service delivery and the gradual realisation of rights. Borrowing should not impede either of these, as the state has minimum core obligations that it must meet. Debt servicing and personnel costs consume about 70 per cent of operating revenues in the City of Cape Town, but the development implications are not obvious. In fact, the undertaking of large infrastructural projects may well have obstructed the spending of transfers from the National Treasury, as nearly half of the municipalities in the Western Cape underspent their grants.

The non-delivery of social services, or their questionable quality, is a clear indicator as to whether governments are in compliance with the international human rights agenda. However, an examination of the process, content and structure of policies may yield more insight into situations where rights have not been fulfilled or protected.

NOTES

1 The methodology followed here is inspired by Balakrishnan and Elson (2008).

2 The MFMA does stipulate that it is the responsibility of the mayor to co-ordinate the annual revision of the IDP and the preparation of the budget and to determine how the IDP is to be taken into account or revised; the mayor must also ensure that 'any revisions to the service delivery or budget implementation are made public promptly'. Yet, there is no prescribed method of doing so and this leaves much to the discretion of the mayor.


SECURITY

Chapter 2
The labour market

"The source of unemployment is not the structural change in itself – such changes are natural for developing countries; rather, it is that South Africa's workforce has failed to adjust to the changing labour demand patterns."

overview

Justine Burns, **Kalie Pauw** and **Lawrence Edwards**, in the first article of this chapter, explore the feasibility of wage subsidies as an option in confronting South Africa's youth unemployment problem. While this is a global phenomenon that affects both rich and developing countries, the South African challenge may be more acute, because the factors driving increased unemployment reflect structural changes in the economy as opposed to temporary shocks; as a result, equilibrium rates of unemployment are likely to persist well into the future. Consequently, they argue for more active labour market policies, in order to increase access for first-time job-seekers and, thereby, mitigate the danger of the devaluation of acquired skills that is associated with prolonged unemployment. Their analysis points to international experience in relation to the introduction of wage subsidies, and they conclude that the measure on its own cannot be regarded as the panacea for youth unemployment. They propose that in South Africa it should form part of a larger, more comprehensive set of policies to address the various facets of the problem directly. Prioritisation of improvement in the South African education and skills development sector should be core to such an approach. In the absence of first-time job-seekers with the cognitive abilities to learn and adapt quickly, the required inputs into their training and losses in productivity may not be adequately offset by a subsidy.

Volker Schoer, **Neil Rankin** and **Gareth Roberts** continue the focus on youth unemployment by analysing job-matching processes, or the factors that influence the probability of getting employed through a particular search/recruitment method. They begin by stating that South Africa's labour market conditions allow firms to impose their recruitment channels on job-seekers. Therefore, finding a job in a particular sector is determined largely by the channels through which recruiters communicate and, by implication, by who has access to these channels. They find that in accessing particular channels, such as formal channels that require a certain level of education, or through referrals from social networks, the majority of the young African unemployed are at a distinct disadvantage.

It is unsurprising, therefore, that the majority of this group, compared to peers of other racial groups, is likely to get discouraged more easily by the job-search process. Ultimately, they find that large firms provide the best opportunity of employment, since they are better able to carry the overhead costs of allocating resources to a dedicated recruitment department or person, and, by extension, to conduct the type of screening process in which job-seekers using informal channels can indicate their productivity.

In the final contribution to this chapter, **Daniela Casale** and **Dorrit Posel** explore the link between English-language proficiency and earnings among African adults in South Africa. The article sets out to explore whether the dominant perception that English is the language of opportunity and success is supported by empirical evidence. New survey data used in this study suggest that there may indeed be a significant earnings advantage to being English-language proficient. However, they caution that there is now also an extensive literature suggesting that children should first master reading and writing skills in their home language. This is supported by their own findings, which show that African adults who are proficient in their home language are far more likely to be proficient in English as well. Ultimately, raising African youths' employability through the acquisition of English language skills is a far more complex matter than previously assumed.

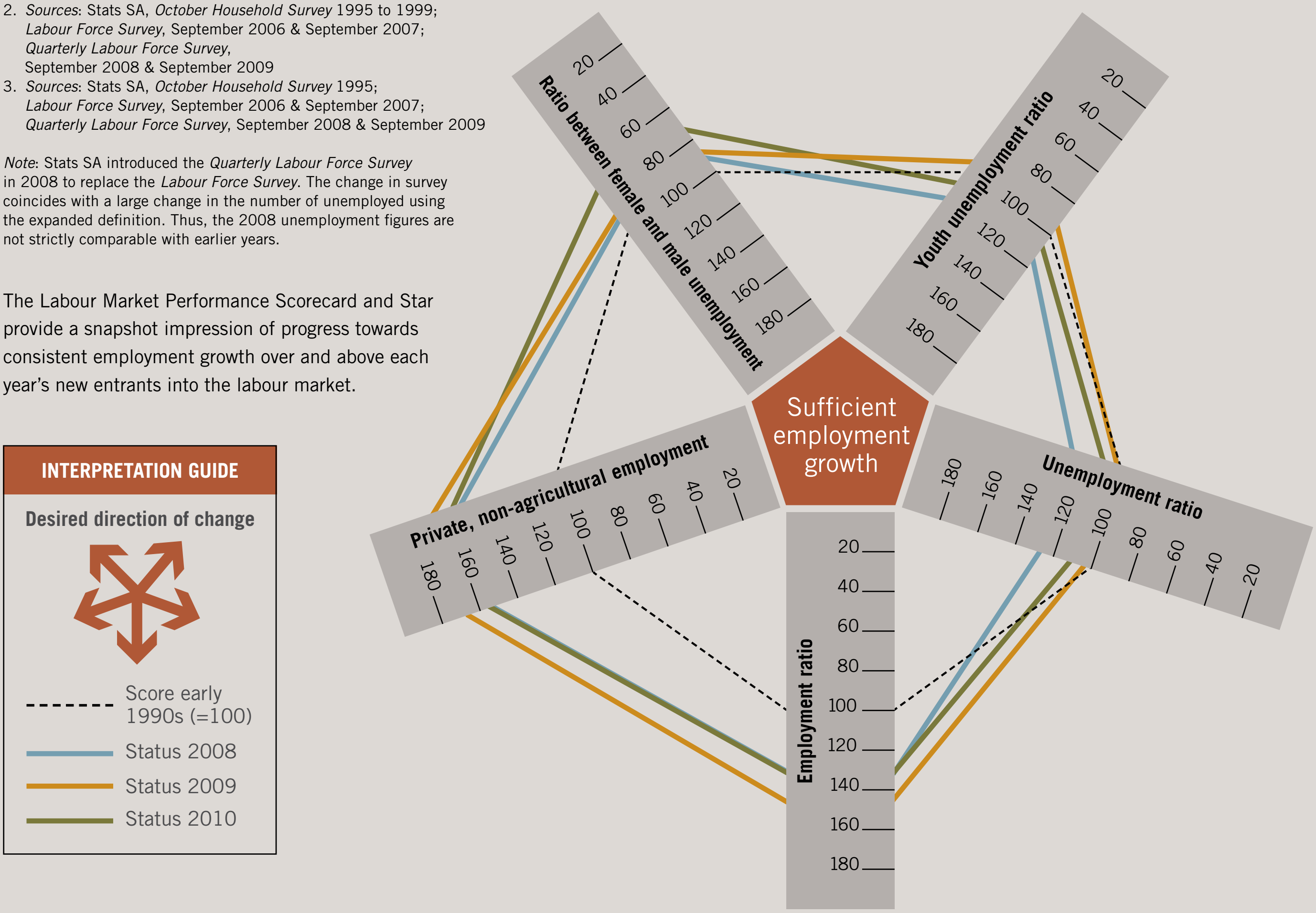
Labour market performance scorecard

Transformation goal	Consistent employment growth in excess of new entrants to the labour market					
Desired outcome	**Indicator**	**Status 1990–1994**	**Status 2008**	**Status 2009**	**Status 2010**	**Positive development**
Adequate employment growth	Employment[1, 2]	9.6 million (1995)	12.9 million (2007)	13.7 million (2008)	12.9 million (2009)	↓
	Private non-agricultural employment[2]	6.7 million (1995)	10.4 million (2007)	11.2 million (2008)	10.5 million (2009)	↓
	Unemployment (expanded definition)[3]	27.8% 4 million (1995)	35.6% 7.3 million (2007)	28.1% 5.2 million (2008)	31.1% 5.8 million (2009)	↓
Absorption of first-time entrants	Youth (15-24 years) unemployment (expanded definition)[3]	53.1% 1.3 million (1995)	62.5% 2.5 million (2007)	52.2% 1.7 million (2008)	57.3% 1.8 million (2009)	↓
Broad-based employment	Ratio between female and male unemployment rates (expanded definition)[3]	1.58 (1995)	1.45 (2007)	1.39 (2008)	1.20 (2009)	↑

1. Excluding small-scale farmers
2. *Sources*: Stats SA, *October Household Survey* 1995 to 1999; *Labour Force Survey*, September 2006 & September 2007; *Quarterly Labour Force Survey*, September 2008 & September 2009
3. *Sources*: Stats SA, *October Household Survey* 1995; *Labour Force Survey*, September 2006 & September 2007; *Quarterly Labour Force Survey*, September 2008 & September 2009

Note: Stats SA introduced the *Quarterly Labour Force Survey* in 2008 to replace the *Labour Force Survey*. The change in survey coincides with a large change in the number of unemployed using the expanded definition. Thus, the 2008 unemployment figures are not strictly comparable with earlier years.

The Labour Market Performance Scorecard and Star provide a snapshot impression of progress towards consistent employment growth over and above each year's new entrants into the labour market.



analysis

WAGE SUBSIDIES: NOT THE SILVER BULLET, BUT A GOOD START TO ADDRESS UNEMPLOYMENT

Justine Burns, Kalie Pauw and Lawrence Edwards

INTRODUCTION

Unemployment in South Africa is high, and has increased during the post-apartheid era, from 13.6 per cent in 1993 to 23.4 per cent in 2008 (see Table 2.1.1). Available evidence suggests that the factors driving increased unemployment reflect structural changes in the economy, as opposed to temporary shocks; consequently, equilibrium rates of unemployment are likely to persist well into the future (Banerjee et al. 2008).

Table 2.1.1: Trends in unemployment

	Narrow definition			Broad definition
	Male	Female	Total	
1993	11.9%	15.8%	13.6%	31.2%
1997	17.3%	26.5%	20.5%	36.1%
2001	26.0%	34.1%	29.6%	41.3%
2005	22.2%	31.3%	26.4%	38.3%
2008	17.1%	30.1%	23.4%	28.9%
Difference	5.2%	14.2%	9.8%	-2.3%

Source: Reproduced from Leibbrandt et al. (2009).

Note: The narrow definition of unemployment excludes workers who are not actively looking for work (i.e. discouraged workers).

Young South Africans, below the age of 35, are particularly vulnerable, and appear to experience great difficulty in successfully accessing employment opportunities (see Table 2.1.2. While high rates of youth unemployment are not unique to South Africa, with youth unemployment internationally typically being two to three times that of adult unemployment (ILO 2004; Lam, Leibbrandt & Mlatsheni 2007), the global nature of the problem does not reduce the importance of active labour market policies to increase access to employment, especially for first time work-seekers. Young individuals who spend time unemployed early in their career paths risk seeing their skills base depreciate over time, as well as their self-confidence erode, thereby making it increasingly difficult to find employment later on. As such, early labour market experience tends to be a predictor of longer-term labour market status, which makes the design of labour market interventions to improve the transition from study to first job vitally important.

Table 2.1.2: Unemployment rates by age cohort

Year	16–20	21–30	31–40	41–50	51–60	61–65
1993	39.2%	20.3%	10.5%	7.4%	6.2%	5.3%
1997	44.4%	31.4%	18.0%	13.1%	8.5%	7.2%
2001	58.3%	43.3%	23.4%	16.7%	12.3%	8.1%
2005	58.9%	39.7%	21.0%	14.9%	9.8%	6.1%
2008	41.3%	33.2%	19.8%	16.9%	9.5%	8.1%
Change	2.1%	12.9%	9.3%	9.5%	3.3%	2.7%

Source: Table reproduced from Leibbrandt et al. (2009).

A possible policy response, which has received widespread attention and is increasingly gaining support, is a wage subsidy programme that could be targeted at youth work-seekers. Several government departments have expressed interest in adopting a policy of this nature, most notably the Department of Social Development and the National Treasury, with the most recent endorsement coming from the Harvard University-led International Panel on Growth in South Africa.

WHAT DO WAGE SUBSIDIES DO?

The primary aim of a wage subsidy programme is to increase employment. Wage subsidies can be paid either to the firm or to the newly hired worker, and, theoretically, it makes no difference which party receives the subsidy. However, the mechanism through which employment outcomes are affected under these subsidy schemes differs. If the subsidy is claimed by the firm, employment increases due to the increased aggregate demand for labour on the part of firms that now face lower labour costs. This is achieved without any reduction in the take-home pay of workers. If the subsidy is paid to the worker, usually in the form of a tax rebate, this induces greater labour force participation and job search on the part of work-seekers, thereby raising employment. Within the South African context, where labour demand has been fairly static in the face of an influx of work-seekers into the job market, a subsidy that can be claimed by the firm appears the most appropriate option, and is certainly the one being most widely discussed in policy circles.

Several additional positive economic benefits arise in relation to a firm-side wage subsidy. The most obvious benefit to the newly hired workers is the opportunity to gain valuable work experience, which is crucially important for any job trajectory. Moreover, by channelling the vast supply of unemployed human resources into productive work, as opposed to leaving these resources lying dormant, a wage subsidy boosts economic productivity and improves efficiency in the economy. As employment expands, consumption is stimulated directly through the purchasing power of the newly hired workers. To the extent that the lower production costs now faced by firms are passed on to consumers in the form of lower prices, this may indirectly stimulate additional consumption activity, which, in turn, will impact positively on the demand for labour in these sectors. If the profitability of beneficiary firms is enhanced by the wage subsidy, this may induce greater investment in these sectors, which will enhance long-term growth prospects, within both the sector and the economy as a whole.

There are, of course, potential pitfalls. Indeed, the weight of available evidence suggests that firm-side subsidies may not be that effective at stimulating employment (Dar & Tzannatos 1999; Smith 2007), particularly in developing and transitional economies (Betcherman, Olivas & Dar 2004). The relative lack of success of firm-side wage and employment subsidy schemes may be attributable to the relatively high administrative burden that is borne by the firm, both in applying for the subsidy and in verifying the eligibility of the potential new hire in the case of a targeted subsidy. This is likely to be exacerbated where subsidy amounts are low, and where eligibility may be difficult or time-consuming to verify. Thus, firms may either ignore the eligibility criteria in their hiring decisions altogether, thereby undermining the programme's effect, or simply go ahead and make their hiring decisions irrespective of the criteria, and claim any available subsidy *ex-post* as a bonus (Dar & Tzannatos 1999). This latter possibility raises doubts about the efficacy of the intended subsidy, since it does not affect strategic decisions on the part of the firm, but is rather claimed as a windfall gain. Firm utilisation of wage subsidy schemes may also be dampened where the availability of the subsidy and details thereof are not widely known. This is more likely to occur with a targeted subsidy than with an untargeted subsidy, since targeting inevitably limits the scope of applicability. Low take-up rates may be especially endemic amongst smaller firms, or those firms not party to bargaining council agreements where the details of such schemes may be debated. Moreover, where the subsidy amount claimable may be capped in some way (e.g. as in the case of the New Jobs Tax Credit in the USA), this may limit the take-up of the subsidy scheme amongst larger firms (Hamersma 2003; Katz 1998).

Ultimately, the success of a wage subsidy programme in raising employment will depend on the size of the subsidy offered, the strength of relationship between wages and employment, and the degree of market competition.

A wage subsidy programme may result in the displacement of existing workers in favour of workers targeted by the wage subsidy scheme. Indeed, without proper monitoring, subsidised workers themselves might be replaced by new subsidised workers at the end of the subsidy period, in what could be called a churning effect. Designing the subsidy as a marginal subsidy, where it is paid only for new hires made over and above status quo employment levels when the subsidy programme is introduced, can mitigate this kind of negative outcome. Moreover, to the extent that existing workers will have valuable on-the-job experience, and will have demonstrated productivity, this reduces the likelihood that employers would forgo these benefits simply to claim a cash bonus.

The effect of the subsidy on employment and aggregate demand in the economy will also depend on the way that the subsidy is financed, and the extent to which markets are competitive. A wage subsidy programme financed through higher taxes would erode household disposable income and consumption, reducing the positive effects for aggregate demand. Thus, the distributional effect of the programme will depend on the distribution of employment gains and the tax incidence in the economy. Alternatively, a subsidy financed through a higher deficit would reduce national savings and investment, which would undermine growth in the long run.

Ultimately, the success of a wage subsidy programme in raising employment will depend on the size of the subsidy offered, the strength of relationship between wages and employment, and the degree of market competition. If the relationship between employment and wage costs is relatively elastic, a reduction in wage costs will produce a relatively strong, positive employment response. However, if the wage-employment relationship is relatively inelastic, lower wage costs will not produce much meaningful change in employment outcomes. Moreover, in the absence of competitive pressure from other firms, firms with market power may be less inclined to respond to the subsidy by raising employment or reducing output prices. Similarly, workers may try to capture a share of the subsidy for themselves by bargaining for higher wages in the presence of a subsidy that lowers firm costs.

THE SOUTH AFRICAN EXPERIENCE OF WAGE SUBSIDIES

South Africa has had some experience with using wage subsidies as an employment-creation policy. The 1960s apartheid state, alarmed by the rate of black urbanisation, incorporated wage subsidies as part of a policy aimed at encouraging decentralisation of industries to peripheral areas in South Africa. Firms that chose to relocate or expand their activities to these peripheral areas were able to claim generous financial concessions and wage subsidies for a specified fixed period. The wage subsidy took the form of a non-taxable cash grant that was calculated as a percentage of the wage bill and subject to a maximum given amount per worker. Firms could receive this subsidy for a maximum of seven years. In addition, firms were eligible for a capital subsidy and transport and electricity rebates.

There seems to be widespread consensus that this policy failed for a number of reasons. These include the fact that many of the chosen decentralisation areas were relatively remote and economically backwards (Tomlinson 1983; Wellings & Black 1986), leading to smaller economic multiplier effects than anticipated. In addition, Harrison and Todes (1996) make the point that the Regional Industrial Development Programme (RIDP) simply reinforced spatial processes that were already in motion prior to the implementation of the subsidy scheme, and the employment associated with the RIDP would probably have occurred in the absence of the policy.

In 1991, this policy was revised, with incentives being reduced and linked to profit and productivity, as opposed to production inputs (Harrison & Todes 1996). Despite these modifications, reviews of the RIDP again suggest that the employment gains associated with this policy would probably have occurred in its absence. In a series of firm-level case studies in KwaZulu-Natal, Harrison and Todes (1996) report that firms complained of the administrative burden associated with applying for the subsides and the complexity of the paperwork, with many firms having to rely on outside consultants for assistance in completing the necessary documentation, thereby raising the cost to the firm. Firms also experienced delays in the processing of applications and the payment of subsidies. Take-up rates of the subsidy were higher amongst larger firms relative to small, medium and micro enterprises (SMMEs), and very few of the firms that took advantage of these incentives engaged in export activities. Those that did, typically relied on low wages to be able to do so. The policy also did not have any explicit focus on training. All of these factors held implications for the sustainability of the firms themselves over time, as well as the employment opportunities created, with many firms closing down once the subsidy period ended.

The learnerships system has been in place for several years. Unfortunately, no rigorous evaluation framework was put in place, so it is difficult to properly evaluate the programme's impact.

SOUTH AFRICAN LEARNERSHIP PROGRAMMES

In 2002, learnerships officially became part of South Africa's National Skills Development Strategy (NSDS). Learnerships are nationally recognised and accredited training programmes developed with the aim of improving the employment prospects of new labour market entrants through formal training that is closely linked to work experience. Employers implementing learnership agreements can claim back discretionary grants from the relevant Sector Education and Training Authorities (SETAs) and are entitled to tax breaks, with financial incentives being higher if the firm takes on previously unemployed individuals rather than previously employed individuals as learners. Thus, learnerships can be classified as training-linked wage subsidies where subsidised employment is linked to both temporary employment and the provision of structured learning by the employer.[1] Learnerships are targeted primarily at entry-level occupations and, hence, also implicitly at young labour market entrants such as school-leavers. In principle, though, the subsidy applies to any type of occupation or skill level, as long as the employer registers the learnership with the relevant SETA.

The learnerships system has been in place for several years. Unfortunately, no rigorous evaluation framework was put in place, so it is difficult to properly evaluate the programme's impact. However, by 2005, 109 647 individuals below the age of 35 had entered learnership/apprenticeship agreements, exceeding the initial target of 80 000 individuals in learnerships by 2005 (Pauw, Oosthuizen & Van der Westhuizen 2006). These estimates only provide an indication of entry into programmes, however, and no good data exist concerning dropout rates, throughput rates or the success rate of learners in finding employment subsequent to completion of a learnership. Grawitzky (2007) reports that while the placement of unemployed learners has been estimated at 46 per cent, this figure has yet to be corroborated by other research.

Firms that participate in the learnership programme are generally very enthusiastic about the idea of the programme, but are less positive about several aspects around administration and implementation (Pauw, Oosthuizen & Van der Westhuizen 2008). Learnerships entail high administrative costs for employers, especially smaller firms. The administrative processes involved in setting up learnership programmes are complex, costly, time-consuming and highly bureaucratic. Learnership programmes have to be developed under a very restrictive set of guidelines, programmes have to be registered and programme content has to be accredited in terms of unit standards. The costs are too high to make it worthwhile for some firms to set up and register learnerships, and this acts to constrain the expansion of the learnership programme. Hence, firms tend to link the learnership system to their recruitment and employment strategies, with the intention of employing learners upon completion of the training. They, therefore, only employ learners who they would have employed in any event (Pauw et al. 2008).

MODELLING THE IMPACT OF A WAGE SUBSIDY ON EMPLOYMENT

Assessing the potential impact of a wage subsidy scheme on employment in the absence of such a scheme is possible only through some kind of modelling exercise that tries to simulate the economy-wide effects of such a programme. This can be done using a computable general equilibrium (CGE) model, which incorporates as many of the key features of the South African economy as possible into a structural mathematical model, and then examines what would happen at a macroeconomic level if a wage subsidy were to be introduced. An economy-wide modelling framework is useful in this context, since it allows for an examination of the effects of the wage subsidy policy across all factor and product markets, while also considering the cost and financing implications. The results generated from a CGE modelling exercise can then be fed into an accompanying micro-simulation, which, in turn, produces estimates concerning the distributional implications of a wage subsidy for poverty and inequality.

Despite the popularity of CGE models, their results should be treated with caution. As with any modelling exercise, the underlying assumptions can have a significant bearing on the results. Moreover, CGE models are not forecasting tools. They simply measure the additional employment opportunities induced by a specific wage subsidy programme, holding all else equal. Design and implementation issues associated with the introduction of a wage subsidy are absent in the models, as are considerations of other policy issues or dynamic aspects of the economy's growth trajectory.

Despite these limitations, such modelling exercises are useful in their own right, and provide at least some basis for thinking through what the impacts of a policy intervention might be. In this tradition, Burns, Pauw and Edwards (2010) use a CGE model coupled with a micro-simulation exercise to explore the impact of a firm-side wage subsidy offered to all formal-sector, semi-skilled and unskilled workers in the manufacturing sector and certain service sectors. Key results from this analysis are reported here.

The data underpinning both the CGE analysis and the micro-simulation exercise are based on the merged 2000 Income and Expenditure Survey and September 2000 Labour Force Survey (IES/LFS 2000) conducted by Statistics South Africa (Stats SA 2002a, 2002b). The subsidy is modelled as a general subsidy, that is, one that can be claimed by the firm in respect of existing employees as well as new hires, as opposed to a marginal subsidy, which would apply only to new hires. This choice simply reflects the difficulties of modelling a marginal subsidy within this framework.

Following the proposal in the National Treasury's 2007 Budget Review, only wages of low-skilled workers earning less than R45 000 per annum are subsidised. The subsidy itself is equal to R5 000 per worker, but is capped at 50 per cent of the wage for workers earning less than R10 000 per annum. This translates into a 12.5 per cent subsidisation of the total wage bill in targeted manufacturing sectors and a 9.1 per cent subsidisation in targeted services sectors, prior to any employment gains. At the economy-wide level, the programme subsidises 5.2 per cent of the current wage bill. It is assumed that the government finances the subsidy by raising household income taxes uniformly across all household groups.

Table 2.1.3 summarises some of the key results obtained from the CGE model. The hypothetical wage subsidy scheme simulated can be expected to generate anywhere from

228 638 to 738 235 low-skilled jobs. The estimates vary, depending on the assumptions made about the strength of relationship between wages and employment. Where this relationship is assumed to be strong (high elasticity), the employment gains are largest, while the converse holds true for the low elasticity case.

The benchmark scenario is represented by the case where the relationship between wages and employment is assumed to be relatively strong (medium-high elasticity). This is based on estimates of the wage-employment relationship in previous work (see Fallon & Lucas 1998). In the benchmark scenario, more than half a million jobs are created, which translates into a 6 per cent increase in low-skilled employment. Most of the additional employment takes place, as expected, in those sectors targeted by the subsidy. In fact, when the wage elasticity is low, the non-targeted sectors shed low-skilled jobs. However, at higher wage elasticity values, larger scale effects ensure that low-skilled employment increases in the non-targeted sectors as well, and this is consistent with the knock-on effects of a wage subsidy programme operating through increased consumption and demand for labour described earlier.

While the wage subsidy is targeted at low-skilled workers, the policy affects employment opportunities for skilled

Table 2.1.3: Employment, factor incomes, gross domestic product and programme costs

	Low elasticity	Medium-low elasticity	Medium-high elasticity	High elasticity
Change in low-skilled employment				
Manufacturing	76 424	121 646	164 921	228 743
Services	155 690	252 026	345 642	484 091
All targeted sectors	232 114	373 672	510 563	712 834
Non-targeted sectors	–3 476	2 308	10 392	25 401
Net employment change	228 638	375 980	520 955	738 235
Change in skilled employment				
Manufacturing	2 940	3 789	4 167	4 204
Services	2 298	2 483	2 164	1 091
Non-targeted sectors	–5 238	–6 272	–6 331	–5 295
Net employment change	0	0	0	0
Change in real factor incomes and GDP				
Low-skilled labour	2.1%	3.4%	4.7%	6.6%
Skilled labour	1.6%	1.7%	1.8%	2.0%
Gross operating surplus	2.0%	1.9%	1.9%	1.9%
Total factor income	1.9%	2.3%	2.6%	3.2%
Real GDP (value added)	0.5%	0.8%	1.2%	1.6%
Programme cost and financing				
Subsidy cost (R billion 2000 prices)	R11.7	R12.1	R12.5	R13.0
(R billion 2007 prices)	R16.9	R17.4	R17.9	R18.7
Cost per job (2000 prices)	R51 364	R32 173	R23 908	R17 627
Required tax rate increase	10.9%	11.4%	11.8%	12.5%

Source: Burns et al. (2010).

workers too. Since skilled workers and low-skilled workers complement one another in the production process, any increase in the employment of unskilled workers inevitably requires some increase in the employment of skilled workers, who may assume a supervisory or managerial role, or provide specialised labour inputs important for production (e.g. technical or planning expertise). The CGE results suggest that the wage subsidy for low-skilled workers will lead to skilled workers moving from non-targeted sectors into employment opportunities in the targeted manufacturing and service sectors. However, the size of this migration is relatively small. On the whole, the wage subsidy policy raises overall employment by 4.7 per cent in the benchmark scenario. This is equivalent to a reduction in unemployment from 36 per cent in the baseline to 32.9 per cent.

In terms of income, low-skilled workers benefit the most, with incomes rising by between 2.1 and 6.6 per cent. Increases in income for skilled workers are much smaller. The policy also has a positive, albeit small, impact on GDP, which suggests positive growth benefits for the economy. For example, in the benchmark scenario, GDP increases by 1.2 per cent.

The final section of Table 2.1.3 presents the programme cost estimates, which range from R11.7 to R13.0 billion. These estimates are equivalent to R16.9 and R18.7 billion, respectively, in 2007 prices, which are considerable amounts relative to the 2007 total welfare budget of about R90.0 billion. In the benchmark scenario, the R12.5 billion price tag translates into a cost-per-job estimate of R23 860, which is slightly higher than the average low-skilled wage of about R20 000 (Stats SA 2002a, 2002b). The cost-per-job estimate more than doubles (to R51 264) if one assumes that employment is relatively unresponsive to the subsidy programme (the low elasticity case), at which point the programme becomes more difficult to justify.

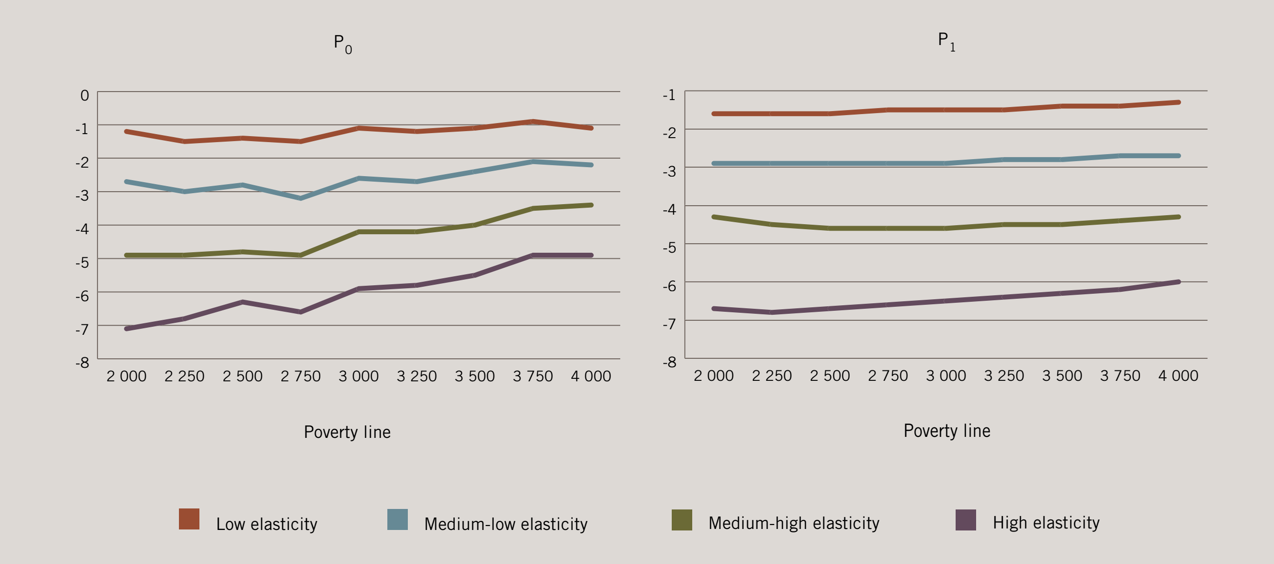
The subsidy programme is financed by raising average household income tax rates by between 10.9 and 12.5 per cent. The bulk of taxes in South Africa are paid by middle- and high-income households. Thus, in the benchmark scenario, households in the top third of the income distribution see their average tax rate increase from 15 to 16.8 per cent. Because the tax rate increase is uniform across all households in the model, these households will also finance the bulk of the wage subsidy cost in absolute terms.

In order to evaluate the possible poverty and distributional effects of the modelled wage subsidy programme in more detail, the CGE results are fed into an accompanying micro-simulation exercise. For the benchmark case assuming medium-high wage elasticity, the micro-simulation exercise suggests that approximately 54 to 55 per cent of new jobs will accrue to the poor. This is consistent with a wage subsidy targeted towards semi-skilled and unskilled workers. In addition, while the CGE model results show that aggregate real disposable household income increases by 1.2 per cent *on average* in the medium-high elasticity case (see Table 2.1.3), income gains are larger for poorer households. In fact, for households in the bottom six quintiles, incomes increase by between 2.7 and 3.0 per cent, while households in the seventh to ninth quintiles experience declines in disposable income, due to their higher tax burden brought about by the financing of the subsidy scheme. Moreover, if one alters the micro-simulation model to reflect that the subsidy is targeted at semi-skilled and unskilled youth workers, the model suggests a much more pro-poor distribution of gains. With a youth-targeted subsidy, poor households see their disposable income levels increase by an average of 9 per cent, while households in the top two deciles of the income distribution experience declining disposable income, which leads to a decline in measured income inequality.

This suggests that a wage subsidy programme may have an important role to play in reducing poverty. Figure 2.1.1 presents estimates of the reduction in poverty achieved. In both panels, the horizontal axis provides the benchmark values for a range of possible poverty lines. Conventionally, South African poverty lines range from R2 000 (extreme poverty) to R4 000 (normal poverty line) per annum in 2000 prices (see, for example, Hoogeveen & Özler 2006; Van der Berg et al. 2005). The first plot (P_0) presents estimates of the reduction in the poverty rate, where poverty is measured as the number of people living below a specified poverty line. In the medium-high elasticity scenario, the extreme poverty rate (R2 000 poverty line) as measured by the number of people living below the poverty line declines by 5 per cent, whereas at the R4 000 poverty line, the number of people living below the poverty line declines by 3.4 per cent. This is equivalent to about 630 000 fewer people in extreme poverty and 800 000 fewer poor people. Similar results are reflected in the second plot, where the poverty measure (P_1) reflects the depth of poverty, that is, how far below the poverty line impoverished households lie. In the medium-high elasticity scenario, the depth of poverty (P_1) declines by just over 4 per cent at all poverty lines.

Some preliminary conclusions can be drawn from the CGE micro-simulation exercise. First, the strength of relationship between wages and employment is important for the success of the policy in terms of creating jobs. If employers are relatively unresponsive to the subsidy, it raises the cost per

Figure 2.1.1: Percentage changes in poverty head count (P_0) and depth of poverty (P_1), youth-targeted scenario



Source: Burns at al. (2010).

job created quite substantially. A low employment response may, in fact, be quite likely if the administrative burden of participating in the programme is high (as is the case in the learnerships programme). Moreover, these simulations assume that the unemployed possess the skills necessary to engage immediately in employment. To the extent that this is not true, even with the subsidy, firms may simply be unable to find suitable workers.

Finally, the model results show that the funding burden falls predominantly on wealthy households, while the gains accrue to the unemployed, who are more likely to be located in poorer households. This means that the policy is relatively pro-poor and reduces inequality. Although the decline in poverty is not negligible, it should be clear that wage subsidies would hardly be able to achieve ambitious goals, such as halving poverty by 2015.

ARE WAGE SUBSIDIES APPROPRIATE FOR TACKLING UNEMPLOYMENT IN SOUTH AFRICA?

The modelling simulations show that a wage subsidy scheme can raise employment significantly if markets work well, if employment is responsive to the subsidy, and if workers possess the appropriate skills to take up the new employment opportunities. However, the international evidence is less sanguine about the merits of wage subsidies in a developing country context. Part of the reason for this is that the wage subsidy scheme may not deal adequately with the various sources of the country's employment problem. A wage subsidy targets wage-induced unemployment; thus, to the extent that high labour costs drive unemployment in South Africa, such a policy would represent an appropriate intervention. However, the role of labour costs as a major determinant of the unemployment problem in South Africa is widely debated and contested, and the evidence is mixed. At best, the evidence on labour costs as a contributing factor in rising unemployment suggests that wage costs *per se* may not be as important as productivity concerns. Indeed, real wages have been falling over time (Banerjee et al. 2006). However, non-wage costs of employment due to stricter labour market legislation and regulation, the emergence of a strong trade union movement, and rigidities imposed by bargaining councils have increased in the post-apartheid era (see Bhorat 2008; Fedderke 2006; Nattrass 2000). To the extent that onerous labour market regulations and high labour costs are perceived as significant barriers to employment by current South African employers, the design of any wage-subsidy scheme for work-seekers should consider also the provision of a risk-free probationary period, during which the subsidised worker could be fired at will, as part of the scheme (Levinsohn 2008). Under such a scenario, the risk is borne by the worker, not the firm, thereby promoting experimentation on the part of the firm. While the possibility exists that such provisions might be abused by unscrupulous firms, the risk should be minimal since firing a productive worker simply to exploit the provisions of the probationary period does not make good business sense, and the firm in question would face additional hiring and training costs associated with subsequent hire.

Arguably, the most important factor influencing employment in the long run is economic growth. Unfortunately, South African GDP growth during the post-apartheid era has been lower than expected, remaining stuck in a band of 2 to 3 per cent per year until the early 2000s. Growth then improved to between 5 and 6 per cent per year until the onset of the current financial crisis. South Africa's historical growth in GDP per capita is poor, even in comparison to other middle- and low-income countries. Between 1980 and 2008, South Africa experienced only a 0.3 per cent growth in GDP per capita, compared to a 1.15 per cent growth for other upper-middle-income countries. Hence, South Africa's relatively poor growth performance has certainly acted to constrain job-creation efforts. It is debatable whether a wage subsidy is the best policy response to addressing inadequate employment demand associated with slow economic growth. Rather, investment, education, infrastructure, market power and industry concentration and openness have all been found to be important determinants of South Africa's growth process (Fedderke 2006).

In addition, the economy has experienced structural shifts in output, which, in turn, has implications for employment. Structural shifts in output from the tradable sector to the services sector have reduced the employment intensity of output (Rodrik 2008). The most dramatic shift is the decline in the share of the primary sector (predominantly agriculture and mining) in national income from 20.8 per cent in 1970 to 8.43 per cent in 2008 (Burns et al. 2009). This has been accompanied by a shift towards the tertiary sector (services), whose share of GDP rose from 53.8 per cent to 67.9 per cent over the same period. The share of manufacturing remained relatively constant over the period (Burns et al. 2009). These sectoral changes hold implications for employment, since the primary sector tends to be relatively employment intensive, while the tertiary sector tends to be less employment intensive. These structural shifts in production have been accompanied by technological change that favours skilled workers over unskilled workers, which has given rise to a skills shortage in the labour market. This skills shortage matters not only because firms that are unable to fill key positions are constrained in their production decisions and activities, but also because skilled and unskilled labour in South Africa appear to be complements (Behar 2005).

Offering a subsidy combined with training can have a high net employment effect and improve the long-term prospects of participants in high-risk groups.

Thus, raising the supply of skilled workers and filling these positions would generate an increase in the demand for unskilled workers.

The source of unemployment is not the structural change in itself – such changes are natural for developing countries; rather, it is that South Africa's workforce has failed to adjust to the changing labour demand patterns. Semi-skilled and unskilled workers remain in excess supply and do not have the skills necessary to compete for the kinds of vacancies that exist. By nature, structural unemployment is unlikely to correct itself without some form of policy intervention (Banerjee et al. 2007). Certainly, wage subsidies will, through raising the attractiveness of low-skilled job-seekers relative to others, lead to an increase in overall employment. However, such a policy still does not address the underlying problems of inadequate or irrelevant education, skills and experience that lie at the heart of the structural unemployment problem. International experience indicates that wage subsidy schemes often are linked to training programmes, especially in developing countries. This need for an additional training component may be especially true in the case of a subsidy targeted at a high-risk group such as unemployed youth. Robertson (2004) argues that wage subsidies offered to the youth without training are short-sighted and do not promote long-term employability. Rather, offering a subsidy combined with training can have a high net employment effect and improve the long-term prospects of participants in high-risk groups (Robertson 2004). South Africa has a well-established learnership programme. Maximising the complementarities with this learnership programme should be considered when designing a wage subsidy scheme.

CONCLUSION

South Africa's unemployment situation is untenable. It constitutes a significant loss in current output in the economy, while the long-term unemployed themselves lose their skills. This loss negatively affects the economy's future production capacity. Unemployment is further closely associated with various socio-economic problems – in particular, the high incidence of poverty. Lowering unemployment is, therefore, of utmost importance.

CGE estimates suggest that a wage subsidy scheme could make a contribution in terms of raising employment and reducing poverty, under the assumption of well-functioning markets and a fairly strong employment response by employers to the subsidy. The programme would also lead to an expansion of GDP by 1.2 per cent, despite the additional burden of higher taxes. In this regard, Pauw and Edwards (2006) find that, compared with a wage subsidy scheme, a targeted-income grant scheme with a similar total cost would be more pro-poor, but its growth and employment impacts would be negligible.

The implication is that even a temporary wage subsidy scheme is likely to have more sustained long-term benefits than targeted welfare programmes, because wage subsidies temporarily draw people into employment, where they can gain experience. Such experience enhances the future employability of individuals and raises overall labour productivity in the economy. These positive effects may be especially important for youth work-seekers. Compared to a welfare transfer of similar cost, wage subsidies place a lesser burden on taxpaying households, because some of the benefits spill over to skilled workers and the owners of capital, and the tax base is broadened, which is not the case under a welfare transfer scheme.

Although the international experience of wage subsidies is less positive, it does not necessarily predict failure for a South African wage subsidy scheme. Many important lessons can be drawn from international examples, especially around design and implementation. Care should be taken to target sectors where employment will be responsive to lower costs of labour. In addition, the subsidy value should be high enough, and administrative requirements should be minimal enough, to promote participation by firms. An additional consideration is linking a training component to the wage subsidy scheme, which would enable workers to adjust to the changing job requirements associated with technological advances and structural changes in the composition of production.

Ultimately, however, wage subsidies should not be regarded as permanent solutions to unemployment, nor are they necessarily the best solution to the true underlying sources of unemployment. These subsidies do not overcome the various constraints to economic growth and job creation, which are best addressed through long-run initiatives that enhance the absorptive capacity of firms and that improve workers' skills and education. Subsidies only temporarily reduce the cost of employing low-skilled workers, when in reality labour market rigidities and low productivity levels are significant contributors to high unit labour costs. Wage subsidies also do not directly address the signalling problems faced by employees, which is ultimately indicative of the education system's failure. What is required is a comprehensive overhaul of South Africa's education and vocational training institutions; this overhaul would also contribute to the goal of broadening the overall skills base. Nonetheless, a wage subsidy scheme may be an indirect way of stimulating employment while complementary growth, education and labour market policies with a longer-run focus are being implemented.

NOTES

1 Learnerships differ from apprenticeships in that while apprenticeships typically focus on training and skills acquisition only, learnerships have a broader focus, aiming to provide academically accredited learning. The intention is to strengthen the link between structured learning and workplace experience, thus ultimately providing a learner with a nationally recognised qualification (Smith, Jennings & Solanki 2005).

research

NETWORKS AND THE EMPLOYMENT OF AFRICAN YOUTH: CHALLENGES TO MATCHING FIRMS WITH WORKERS

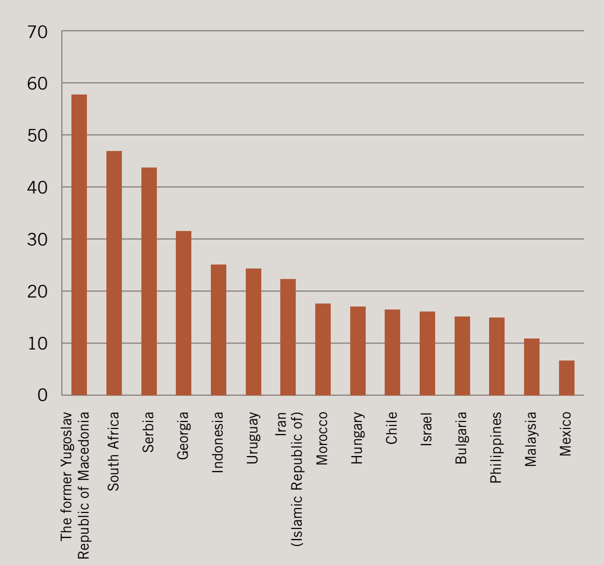
Volker Schoer, Neil A Rankin and Gareth Roberts[1]

YOUTH UNEMPLOYMENT AND EMPLOYMENT TRANSITIONS

Getting young people into jobs is one of the key policy challenges South Africa currently faces. The youth constitute the largest portion of the unemployed and, as Figure 2.2.1 illustrates, South African youth unemployment levels are significantly higher than in most other middle-income countries. African and coloured youth are particularly affected, with unemployment rates of over 50 per cent and 40 per cent respectively.

The negative impact of youth unemployment is not only associated with present social problems and an underutilisation of a productive resource, but can have important consequences in the future. As Banerjee et al. (2008) illustrate, accessing the first job is crucial in the lifetime employment path of workers. Furthermore, especially for African job-seekers, the observed decline in the unemployment rate between the 16–24 age group and the 25–34 age group reflects a transition not into employment but rather into non-search (discouraged job-seekers) and non-participation (Lam, Leibbrandt & Mlatsheni 2007; Ranchod & Dinkelman 2007; Banerjee et al. 2008). Thus, young people who do not find a job early are likely to face a much worse lifetime income trajectory than those that do manage to access jobs early.

Figure 2.2.1: Youth unemployment rates (middle-income countries), 2007



Source: UNSD (n.d.).

Thus, job creation for young people is an important policy goal, but it is also useful to understand who gets these jobs, since this has consequences for the distribution of employment and income. Allocation of vacant jobs among the unemployed is determined by the matching of job-seekers and recruiting firms. Therefore, which people finally get employed is not only a function of their skill and personal characteristics that fit the requirements of the vacant job, but also a matter of the process through which firms and job-seekers are matched.

Despite the importance of the matching process, little is known about its impact on transitions into employment in the South African labour market. Previous work on unemployment in South Africa has concentrated on the determinants of labour market participation, job-search behaviour of the unemployed and the differences in characteristics between the employed and the unemployed (see, for example, Wittenberg 2001, 2002; Casale & Posel 2002; Bhorat 2004; Kingdon & Knight 2004, 2006a, 2006b, 2007; Schoer & Leibbrandt 2006; Hinks 2008). This paper adds to the existing literature by investigating the impact of the matching process on the allocation of jobs among young African job-seekers.

JOB MATCHING IN SOUTH AFRICA

A reason for the higher percentage of young African job-seekers who move into discouragement rather than employment may be that the search methods available to them are ineffective, while searching itself imposes a not-negligible cost (Wittenberg 2002). Given the low probabilities of finding a job and the relatively high costs of search, young people may rationally choose not to search.

Empirical evidence from various South African surveys on youth and lower-income groups suggests that most job matching occurs via social networks (referrals), which implies that job-seekers without access to such recruitment networks are disadvantaged (Wittenberg 2001; Schoer &

Leibbrandt 2006). Table 2.2.1 illustrates that about two-thirds (up to 68 per cent) of workers in the various samples found employment via social networks, while the remainder is split between workers who were employed through formal channels and informal channels.[2]

Table 2.2.1: Employment channels, 2000–2006

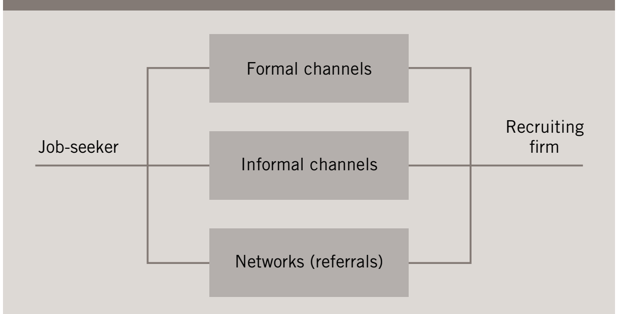
	KMP (2000)	CAPS (2002, 2003)	DV (2004)	SAYPS (2006)
Formal	14%	16%	28%	22%
Informal	20%	16%	27%	14%
Networks	66%	68%	46%	64%

Sources: Khayelitsha/Mitchell's Plain (KMP) survey; Cape Area Panel Study (CAPS); Duncan Village East London (DV) survey (Duff & Fryer 2004); South African Young People Survey (SAYPS), own calculations.

These employment channels are the equilibrium outcomes of the search methods of the job-seekers and the recruitment channels of the firms. Figure 2.2.2 shows how the allocation of vacant jobs evolves out of the overlap between the recruitment methods of the firms and the search strategies of the job-seekers.

The probability of a match through a particular search/recruitment method is determined by the number of job-seekers and firms using this method to locate suitable vacancies/candidates. It is reasonable to argue that, in the South African context of mass unemployment, the arrival

Figure 2.2.2: Matching process through various search/recruitment channels



Source: Adapted from Lindeboom, Van Ours & Renes (1994).

rate of non-highly skilled job-seekers through the various search channels is relatively high, considering that job-seekers exceed vacancies. Hence, for such workers, the South African labour market is best characterised as a slack market in which the demand side (i.e. the employer) can pick who to employ and how to employ workers.

Furthermore, the probability of obtaining employment is not simply a function of the skills match, but also of the matching process itself – in particular, the overlap between the recruitment channel choice of the employer and the search methods of the job-seeker. It follows that two job-seekers with identical characteristics, but who pursue different search strategies, might experience different employment probabilities simply because one job-seeker pursues a search strategy that has little overlap with the recruitment channels of firms, whereas the search strategy of the other overlaps more with the recruitment channels of firms.

Firms choose recruitment channels that optimise their search for the most suitable job candidate. Holzer (1987) argues that the recruitment process contains two stages: locating a possible candidate, and the screening of the candidate for suitable characteristics. Recruitment methods need to fulfil both functions. The main concern of the employer during the recruitment process is to establish accurate information on the productivity level of the applicant. The higher the required productivity level and the subsequent training costs to the firm after the hire, the more willing the firm will be to incur advertising and screening costs. In such cases, firms use the more formal recruitment methods like newspaper advertising and public recruitment agencies, as well as elaborate screening methods like interviews, tests and probation periods. On the other hand, firms are less inclined to incur high costs for the recruitment of lower skill levels. Thus, firms are more likely to pursue recruitment methods that still produce relatively reliable information about the applicant's productivity levels, but at the least possible cost, such as the use of referrals by their own workforce (Rees 1966).

Firm characteristics, especially firm size, influence the recruitment channel choices of firms. For instance, larger firms experience a higher arrival rate of direct enquiries (Holzer 1987), while smaller firms are more likely to rely on referrals by 'known quantities' in order to cut costs (Carroll, Marchington & Earnshaw 1999). Larger firms use a wider variety of recruitment methods, because they can allocate more resources to advertising and the screening of applicants (Barron, Black & Loewenstein 1987; Marsden & Campbell 1990).

Standing, Sender & Weeks (1996) report that in the early 1990s close to 42 per cent of South African firms 'relied on friends and relatives of existing workers' to recruit new blue-collar workers. This trend intensified during the 1990s. Table 2.2.2 shows the preferred recruitment methods of South African firms captured in various firm-level surveys by the World Bank in the period 1998–2002. It shows that recruitment via social networks is the preferred method of employment for unskilled workers across different firm sizes. Large firms use referrals as well as formal channels for the recruitment of skilled workers, whereas small firms prefer the use of referrals. Informal channels (direct applications at the gate of the factory) are the least preferred recruitment channel across both size groups.

Considering that the majority of African youth rely on informal channels for job search, which have little overlap with the preferred recruitment channels of South African firms, their matching success seems limited.

Table 2.2.2: Preferred recruitment channels by skill level

	Large firms		Small firms	
	Skilled	*Unskilled*	*Skilled*	*Unskilled*
Formal	47%	5%	25%	5%
Informal	5%	7%	3%	4%
Network	46%	86%	65%	83%
Other	2%	4%	7%	8%

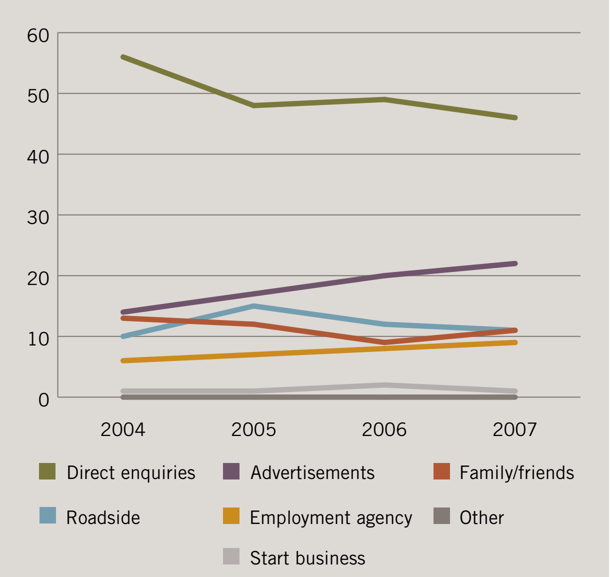
Sources: World Bank Greater Johannesburg Metropolitan Survey, World Bank Greater Durban Metropolitan Survey, World Bank Small and Medium Enterprise Survey (own calculations).

Job-seekers are aware of the way in which firms recruit employees and behave accordingly. Thus, an information technology specialist will not wait on the side of the road to be picked up and neither will a construction worker look at Internet advertisements, because, in both cases, the matching probability would be close to zero. Yet, in the face of mass unemployment, not only is the decision to engage in active search hampered by obstacles (Kingdon & Knight 2006b; Hinks 2008), but the choice of search method is often a compromise between what job-seekers consider to be the best way of looking for a job and what is actually feasible for them to pursue. Thus, although the job-seekers know that other search methods would yield a higher probability of getting employed, they have to rely on less promising strategies (Schoer & Leibbrandt 2006) given the constraints they face, such as lack of networks of employed people or limited financial resources.

Duff and Fryer (2004) argue that job-seekers choose search methods that allow them to find vacancies and to signal to employers their suitability. However, they claim that the signalling ability of the various search methods follows a hierarchy. The most reliable channels of signalling are formal, impersonal channels (advertisements and employment agencies), which require that the productivity signal of the job-seeker can be trusted. While educational qualifications generally fulfil this signalling function, only completed secondary schooling (matric) and further qualifications are considered trustworthy by employers in South Africa (Wittenberg 2002; Duff & Fryer 2004). Thus, formal channels are available only to job-seekers with completed high school education and/or further qualifications. When job-seekers do not have the required educational background for formal channels, they have to use their family and friends to signal their productivity levels to the prospective employer. Finally, without the necessary educational background and no access to social contacts, job-seekers have no option other than walking from place to place and trying to convince employers directly. Besides the impact of individual characteristics, Schoer and Leibbrandt (2006) show that household characteristics can either facilitate or constrain the pursuit of search methods. Figure 2.2.3 shows the impact of such constraints on the main search method used by African job-seekers in the age group 15–34. The majority (more than 60 per cent) rely on direct enquires at the factory gate and waiting on the side of the road, while only a small portion pursue more formal channels like answering newspaper advertisements and registering with an employment agency.

Considering that the majority of African youth rely on informal channels for job search, which have little overlap with the preferred recruitment channels of South African firms, their matching success seems limited. Lam et al. (2007) show that the majority of the unemployed African youth have only some level of secondary schooling, which makes formal channels unavailable. While social network referrals might be unsolicited, they still require that the household of the job-seeker is attached to the labour market through other employed household members or employed friends and family in other households who can act as contacts. In that context, prolonged job search via search methods that yield low

Figure 2.2.3: Job-search methods of African job-seekers, age group 25–34



Source: LFS 2004–2007 (own calculations).

employment transitions is likely to lead to discouragement.

Whereas there is a significant body of knowledge on the impact of matching on employment transition and the success of individual search methods in developed countries (see, for example, Reid 1972; Blau & Robins 1990; Osberg 1993; Gorter, Nijkamp & Rietvield 1993; Russo, Rietveld & Gorter 2000; Addison & Portugal 2002; Mahringer & Weber 2002; Devaro 2005), little is known about the actual matching process in a developing country context with mass unemployment. Without this knowledge, government policies to facilitate active job search might be fruitless for job-seekers who only have access to informal search methods, while the promotion of particular-sized firms might have a significant impact on who is advantaged and disadvantaged in the matching process. This article summarises the findings of an investigation in a recent paper that aims to shed some light on the determinants of the matching process (Schoer, Rankin & Roberts 2010).

INVESTIGATION

The investigation uses data from the South African Young Persons Survey (SAYPS) conducted by the African Micro-Economic Research Unit, University of the Witwatersrand, in 2006. Representative samples of young Africans were selected from townships, informal settlements, suburbs, inner-city areas and tribal areas in Johannesburg (Gauteng) and eThekwini (KwaZulu-Natal), as well as Polokwane and the adjacent rural area of Dikgale (Limpopo). These locations were chosen because they allow for a comparison between urban and rural settings and between the regional economies. The sample covers 1 102 African individuals between the ages of 15 and 35 years.

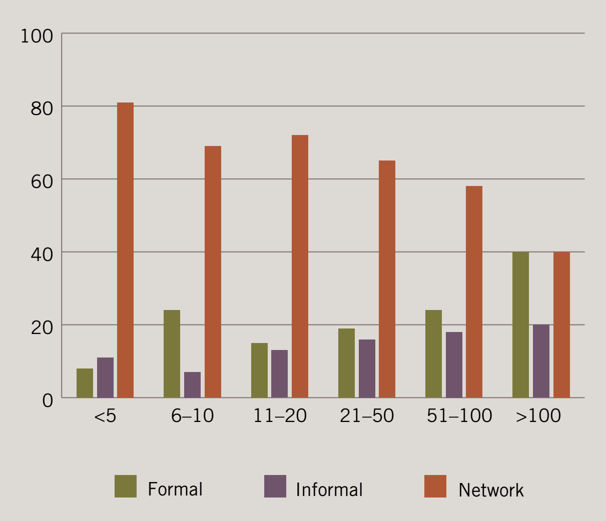
The survey included a number of questions about the firm that employed the respondent. This particular approach is unique in South African research on employment, and provides an opportunity to investigate some of the labour-demand features that have an impact on the job-matching outcomes of the respondents. The emphasis in this new approach is on the channel through which young Africans accessed their jobs, and the size of the firm in terms of the number of employees, since recruitment channels may differ by firm size.

Respondents in wage employment were asked how they found their job and how many employees there were at the firm where they worked. The answers to how they found employment have been collapsed into three groups – formal, informal and network. Approximately 64 per cent of the respondents found their first job through the network channel, 22 per cent through formal channels and 14 per cent through informal channels. These are similar proportions to other surveys in other parts of the country (see Table 2.2.1). Figure 2.2.4 illustrates that, in this sample, the probability of being employed via formal and informal channels increases with the size of the firm, where the various firm sizes have been combined into three classifications – small firms with less than 20 employees, medium-sized firms with between 20 and 100 employees and large firms with more than 100 employees.[3]

However, firm size might proxy for the firm's ability to incur recruitment costs. To control for the willingness and ability of the firm to allocate resources to the screening process, we also investigate whether the respondent was interviewed during the recruitment process. Finally, because channels for accessing a first job might be different to those for accessing subsequent jobs, we distinguish between the first job and a subsequent job.

The results from the investigation show that having reliable educational qualifications, like the South African school-leaving certificate (matric) and any further degrees and diplomas, more than doubles the probability of getting employed through formal channels, compared to workers with some secondary schooling only. This is not surprising. Firms will use formal channels to employ workers with

Figure 2.2.4: Employment methods by firm size, 2006



Source: SAYPS.

specific qualifications and, therefore, are more willing to endure the costs of advertising through formal channels. Job-seekers with reliable productivity signals (high school, certificates, diplomas and higher-education degrees) can use formal channels to transmit information on their productivity levels, and firms can ensure a higher quality match between the required characteristics of the job and the applicant's ability.

Comparing the individual differences between those employed through informal channels and those employed through social networks, only one characteristic accounts for the increased likelihood of getting employed through informal channels rather than through social networks – the ability to speak English well. Besides that one difference, workers who were employed through social networks and informal channels seem to exhibit very similar individual and household characteristics. We cannot account perfectly for the degree of labour market attachment of the household through the number of employed household members at the time when the respondent was employed (Dinkelman & Pirouz 2001; Hinks 2008). Even the employment status of the head of household when the respondent was 15 years old does not explain the difference.

Contrary to expectation, the investigation also suggests that the employment channels for the first job compared to channels into subsequent jobs are not significantly different for young Africans. Neither does the presence of a union affect how workers get employed. Firm size, on the other hand, dramatically influences how the respondents accessed their jobs. The likelihood of getting employed through formal, and informal, channels increases as the size of the firm increases. Workers are almost five times and three times more likely to find work through formal and informal channels, respectively, when employed by a large firm, as opposed to a small firm, even when keeping individual characteristics like educational attainment constant. The same holds true for medium-sized firms, although the differences are of weak statistical significance. The services sector is more likely to recruit through formal channels, but this is significant only when compared to the manufacturing sector.

Larger firms are better able to carry the overhead costs of allocating resources to a dedicated recruitment department or person; thus, the willingness and ability to endure advertising and screening costs increase with the size of the firm. Our results show that larger firms are more likely than smaller firms to use formal and informal recruitment methods. Whereas this is expected for the difference between employment through formal and social network channels, it also indicates that the success of direct applicants is strongly dependent on the willingness of firms to engage in time-consuming screening processes. For informal job-seekers, an interview is the only possible channel to signal their productivity levels. Therefore, when firms use interviews as a screening mechanism, informal job-seekers have a chance of getting hired.

The inclusion of interviews, as a characteristic explaining the match, also reduces the significance of educational qualification, except for further-education qualifications. This supports the argument that firms use formal channels especially for jobs that require a high-quality match between the required characteristics and the characteristics of the applicant. The fact that workers with further education are still more likely to be recruited through formal channels, despite the control for the screening process, indicates that firms have to advertise high-skilled jobs in order to attract the right pool of applicants. On the other hand, the inclusion of going through an interview as a characteristic that explains the match does not fully account for the different results that we find for the effect of firm size: larger firms are still more likely than smaller firms to employ these young people through formal and informal channels rather than networks. This suggests that firm size may be correlated with other unobservable firm-level characteristics, for instance, the relative capital intensity of production (Clarke et al. 2008). If production is more capital intensive in large firms, then it is more likely that these firms require more skilled workers.

Another explanation for the size effect could be the impact of labour regulations. Firms are required by law to advertise jobs and to document certain information, including the advertisement for the job, details of the applicants and a justification for choosing the individual selected. Larger firms are more visible than smaller firms and, therefore, fall under greater scrutiny by the Department of Labour to comply with the legislation.[4] This might account for the significance of size in recruitment through formal channels, but it does not explain why large firm size is associated with finding employment through informal channels rather than networks. One possible explanation is that large firms are more visible to job-seekers who go from factory to factory to enquire about vacancies. Smaller firms are either less visible or simply less targeted by informal channel job-seekers. Many young unemployed Africans are likely to live far away from business centres and industrial areas (Banerjee et al. 2007). To minimise search costs, job-seekers who have to go from firm to firm will target areas with a high concentration of firms. If larger firms are more visible and clustered in these types of areas, the arrival rate of informal job-seekers will be higher for large firms than for small firms.

CONCLUSION

This work has attempted to shed some light on the matching process in the South African labour market. While the supply side has been investigated extensively, little is known about the matching process and factors that influence the probability of getting employed through a particular search/recruitment method. This is important since it impacts on the allocation of jobs and incomes, and thus has distributional effects.

The slack labour market conditions in South Africa allow firms to impose their chosen recruitment channels on job-seekers; thus, firm characteristics affect the success of the search method of the individual. While job-seekers are aware of this, the choice of search method is often constrained. Formal channels are open only to job-seekers with trustworthy educational signals, which the majority of the young African unemployed do not have. Two other options remain for these individuals: directly approaching employers or relying on social networks to obtain employment. The preference of firms for the network channel shows that they favour cheaper recruitment methods that impose little advertising and screening costs but provide a reasonable productivity signal through the referral. Not having access to such recruitment networks creates a systematic disadvantage to informal channel job-seekers – those unemployed who have neither the required educational background nor access to networks of employed people.

What does this mean for the most marginalised and, consequently, for broad-based economic transformation in this country? For those with little labour market attachment through employed household members or family and friends, and low levels of education, the chances of finding employment through any of the channels are very low. It is not surprising, therefore, that the majority of the young African job-seekers are more likely to get discouraged from active job search compared to their peers of other racial groups. For these individuals, particularly the poorest and those who are unable to find employment through government-sponsored active labour market programmes, the entry or growth of large firms provides the best opportunity of employment, given their characteristics and the search methods available to them.

NOTES

1 This is a summary of a paper (Accessing jobs in a slack labour market: Determinants of job matching in South Africa) that was carried out with the aid of a grant from the International Development Research Centre, Ottawa, Canada. The authors are grateful to Steven Koch, Dori Posel, Francis Teal, Ingrid Woolard and Harry Zarenda, as well as other participants at the ERSA Workshop on Households and Labour Markets, Durban (2009), the CSAE conference on Development in Africa, Oxford (2009), the ESSA conference, Port Elizabeth (2009) and seminar participants at the School of Economic and Business Sciences at the University of the Witwatersrand for valuable comments and suggestions. The usual disclaimer applies.

2 *Formal* channels refer to newspaper advertisements, employment agencies and learnerships; *informal* channels refer to enquiries at the gate of factories, farms and private homes, as well as waiting at the side of the road; and networks refer to the use of friends and family connections.

3 These size categories follow closely the ranges adopted by the World Bank Investment Climate Assessment Surveys (see Clarke et al. 2008).

4 The Employment Equity Act 55 of 1998 applies to firms with more than 50 employees. Furthermore, the Code of Good Practice (Notice R. 1394 1 December 1999), which accompanies the Act, stipulates the appointment procedures that firms have to follow in order to increase the participation of designated groups. These procedures 'include transparent recruitment strategies such as appropriate and unbiased selection criteria and selection panels, and targeted advertising' (Code of Good Practice, section 8.3.1).

research

MIND YOUR LANGUAGE: THE BENEFITS OF ENGLISH PROFICIENCY IN THE LABOUR MARKET

Daniela Casale and Dorrit Posel

INTRODUCTION

Although the majority of South Africans speak one of the nine official African languages as their mother tongue or home language, English remains the dominant language in business and in much of public life. English is also the dominant language of instruction for most children in South Africa, frequently from as early as Grade 4. While the official language and education policy in post-apartheid South Africa encourages multilingualism and the use of mother-tongue instruction in schools, parents, through the school governing bodies, often choose English as the language of teaching and learning for their children, as they perceive English to be the language of success and status (Heugh 1999; Probyn et al. 2002; Probyn 2009).

However, teaching children in a language that is not their mother tongue may significantly impede their educational attainment. A considerable body of research in the language and learning literature suggests that children who are exposed to formal instruction in another language from very early on not only struggle to acquire adequate skills in that language, but also have problems in understanding and conceptualising the subject content. Experts in this field argue that children first need to have an adequate level of skill in reading and writing in their home language before they can become proficient in a second language, and before they can translate conceptual concepts into that language – an approach informed by 'additive bilingualism' (Cummins 1979, 1980; for studies of South Africa, see, for example, Brock-Utne & Holmarsdottir 2004; Heugh 1999; Heugh 2000; MacDonald 2002; Smyth 2002; Webb 1999).

In South Africa, there is the added problem that the broader education environment is not well suited to second-language instruction. Often, teachers themselves are not sufficiently skilled in English to teach in the language; textbooks and learning materials are not adapted for second-language instruction; and, outside of the classroom, many children have little exposure to English to reinforce their learning in school. These problems help to explain low matriculation pass rates and high failure rates at tertiary institutions, where students struggle with advanced learning in a language in which they are not proficient.

Here, we analyse new data on language proficiency and earnings collected in the 2008 National Income Dynamics Study (NIDS) in the context of South Africa's language-in-education policy.[1] The paper has three sections. In the first section, we present data on the language proficiency of South African adults in both their home language and English, and we show how this ability is highly differentiated according to race. In the second section, we examine some of the correlates of English-language proficiency among Africans specifically – in other words, we ask who among this group is more likely to be proficient in English. In particular, we are interested in the link between home-language and English-language proficiency, as we hope to shed further light on the role of additive bilingualism in teaching and learning in schools. In the third section, we explore the relationship between language proficiency and the earnings of the employed. We ask whether the perception that English is the language of opportunity and success is indeed borne out when individuals participate in the labour market.

LANGUAGE PROFICIENCY IN SOUTH AFRICA

Prior to the release of the 2008 wave of NIDS, little national-level data were available in South Africa to measure language proficiency. Some household surveys conducted by Statistics South Africa since the mid-1990s (such as certain waves of the October Household Survey and the Labour Force Survey) did collect information on the language most spoken at home by individuals, and on whether individuals could read and write 'in at least one language'.[2] However, none of these surveys asked for information on ability in a second language, or in English specifically.

NIDS is distinctive in that, in addition to a question on language most spoken at home, it includes questions on the ability of all adults (aged 15 years and older) to read and write, both in their home language and in English. More specifically, individuals are asked to assess their reading and writing ability separately according to a four-point scale: 'very good'; 'fair'; 'not well'; 'not at all'. Tables 2.3.1 to 2.3.3 summarise the responses in NIDS to the questions on language most spoken at home and reading and writing skills in the individual's home language and English.

The information displayed in these tables begins to show the extent of multilingualism in South Africa. Although only 1 per cent of Africans speak English as their home language (Table 2.3.1), just under 70 per cent assessed their reading and writing skills in English as being at least fair (Table 2.3.2). Similarly, among coloured and white respondents, only 27 per cent and 40 per cent respectively reported English as their home language (the rest are mostly Afrikaans home-language speakers), but about three-quarters of coloured and almost all white respondents (around 97 per cent) reported at least a fair reading and writing ability in English.[3] The majority of Indians reported English as their home language; it is, thus, not surprising that well over 90 per cent also reported at least fair levels of literacy ability in English. These tables also reveal that English literacy ability is sharply differentiated by race, with levels of English

Table 2.3.1: Home language and race among adults

	African (%)	Coloured (%)	Indian (%)	White (%)	All (%)
IsiNdebele	1.67	0.23	0.06	0.00	1.34
IsiXhosa	22.64	0.91	0.94	0.00	17.98
IsiZulu	29.41	1.11	1.96	0.13	23.38
Sepedi	13.09	0.09	0.00	0.20	10.36
Sesotho	12.32	0.13	0.36	0.03	9.75
Setswana	9.66	0.57	0.00	0.70	7.74
SiSwati	3.04	0.00	0.00	0.00	2.40
Tshivenda	1.95	0.01	0.00	0.02	1.54
Xitsonga	3.92	0.00	0.00	0.00	3.10
Afrikaans	0.78	69.97	4.13	58.08	12.42
English	0.95	26.76	91.49	39.97	9.40
Other	0.57	0.23	1.06	0.88	0.58
	100	100	100	100	100

Source: Own calculations, NIDS 2008.
Note: The data have been weighted to generate population estimates. Adults are aged 15 years and older.

Table 2.3.2: Self-assessed reading and writing ability in English among adults

	African (%)	*Coloured (%)*	*Indian (%)*	*White (%)*	*All (%)*
	Reading ability				
Very well	42.34	48.39	84.47	83.27	48.16
Fair	25.79	24.82	9.01	13.75	24.03
Not well	14.19	16.09	2.29	1.81	12.76
Not at all	17.68	10.70	4.32	1.16	15.05
Total	100	100	100	100	100
	Writing ability				
Very well	41.31	47.66	84.40	81.01	47.06
Fair	25.57	24.97	9.55	15.14	24.03
Not well	14.83	16.35	1.50	2.67	13.36
Not at all	18.28	11.02	4.55	1.19	15.56
Total	100	100	100	100	100

Source: Own calculations, NIDS 2008.
Note: The data have been weighted to represent population estimates. Adults are aged 15 years and older.

Table 2.3.3: Self-assessed reading and writing ability in home language among adults

	African (%)	*Coloured (%)*	*Indian (%)*	*White (%)*	*All (%)*
	Reading ability				
Very well	61.89	69.04	82.04	94.97	66.42
Fair	20.51	20.58	9.87	3.80	18.52
Not well	8.55	5.01	4.58	0.51	7.33
Not at all	9.04	5.37	3.51	0.72	7.73
Total	100	100	100	100	100
	Writing ability				
Very well	62.43	67.18	81.96	94.84	66.68
Fair	19.54	21.82	11.67	3.38	17.86
Not well	8.58	5.34	2.62	1.53	7.43
Not at all	9.46	5.67	3.74	0.25	8.04
Total	100	100	100	100	100

Source: Own calculations, NIDS 2008.
Note: The data have been weighted to represent population estimates. Adults are aged 15 years and older.

literacy ability highest among white and Indian and lowest among coloured and African respondents.

Levels of ability in the individual's home language, reported in Table 2.3.3, are similarly ordered by race, and probably reflect the differential access to and quality of education during apartheid and, to a lesser extent, the post-apartheid period. The early introduction of English as the language of instruction at schools has also resulted in insufficient attention being paid in schools to reading and writing in the learner's home language (Lafon 2009). While almost 99 per cent of white and about 93 per cent of Indian respondents reported a self-assessed ability in their home language of at least fair, the comparable figures for coloured and African respondents are 89 per cent and 82 per cent respectively.

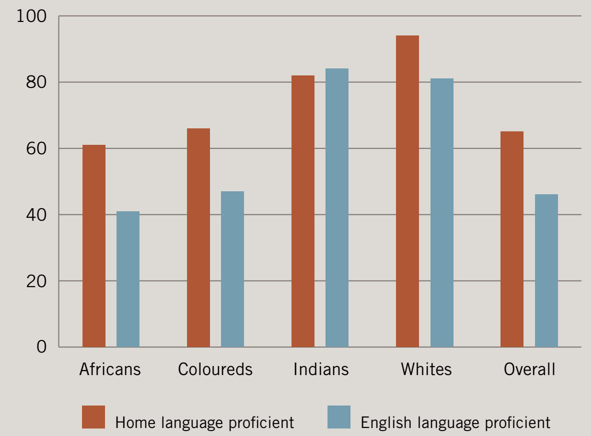
For the remainder of this article, we define 'language proficiency' as the ability to read *and* to write 'very well' in the specified language. We use the highest response option in the questions in NIDS in the light of concerns that self-reported data on literacy ability may be overestimated (Deumert, Inder & Maitra 2005). Figure 2.3.1 shows the percentages of South African adults, overall and by race, who are identified as being home-language proficient and English-language proficient according to this definition. The data in this figure reveal that the racial differences in literacy ability are even more marked when comparisons are made only for those who have the highest level of self-assessed reading and writing ability. Comparing the two extremes of South Africa's racial polarisation, home-language proficiency is more than 30 percentage points lower among African adults than among white adults (61 per cent compared to 94 per cent), whereas English-language proficiency is 40 percentage points lower (41 per cent compared to 81 per cent).

THE CORRELATES OF ENGLISH-LANGUAGE PROFICIENCY

In this section, we explore some of the correlates of proficiency in English among Africans, the overwhelming majority of whom report an African language as their home language. We show that rates of English-language proficiency vary considerably according to a variety of individual, locational and socio-economic characteristics of the adults in our sample, including their age, education, area type and province of residence, family income class during childhood, and proficiency in their home language. These data are presented in Figures 2.3.2 to 2.3.4.

Figure 2.3.2 reveals that while there is very little difference, on average, in the ability to read and to write very well in English between African men and women, English-language proficiency decreases noticeably with age. For example, 56

Figure 2.3.1: Home-language and English-language proficiency among adults



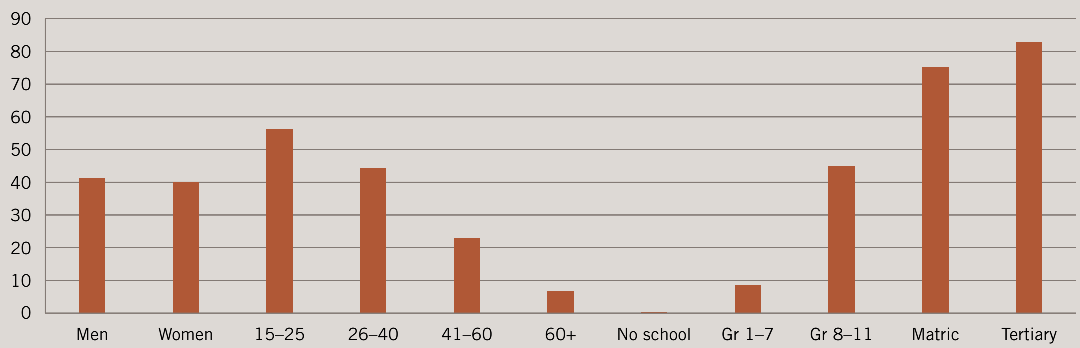
Source: Own calculations, NIDS 2008.
Notes: The data have been weighted to represent population estimates. Adults are aged 15 years and older. Language proficiency is defined as the self-assessed ability to both read and write very well in the language.

per cent of Africans in the youngest age cohort (15–25 years) reported being proficient in English, compared to just under 7 per cent of those in the oldest age cohort (60 years and over). This is not surprising, as the older generation of South Africans, who grew up under apartheid, would have had far less access to education, or exposure to English through the media and in daily life. English-language proficiency is also strongly correlated with education in the direction we would expect. Hardly any of the individuals with no schooling reported being proficient in English, compared to 75 per cent of those with a matric education and over 80 per cent of those with some tertiary education (i.e. a degree or diploma).

There are also geographical differences in English-language proficiency, illustrated in Figure 2.3.3. As we would predict, a significantly larger percentage of individuals living in urban areas are proficient in English, where exposure to the language would be much greater than in rural areas. The Northern Cape and Gauteng have the highest levels of English-language proficiency in South Africa, with half of all African adults in those provinces reporting very high levels of reading and writing ability in English. In contrast, less than a third of the adults in the Eastern Cape and KwaZulu-Natal (where the largest number of isiXhosa- and isiZulu-speakers, respectively, reside) report being English -language proficient.

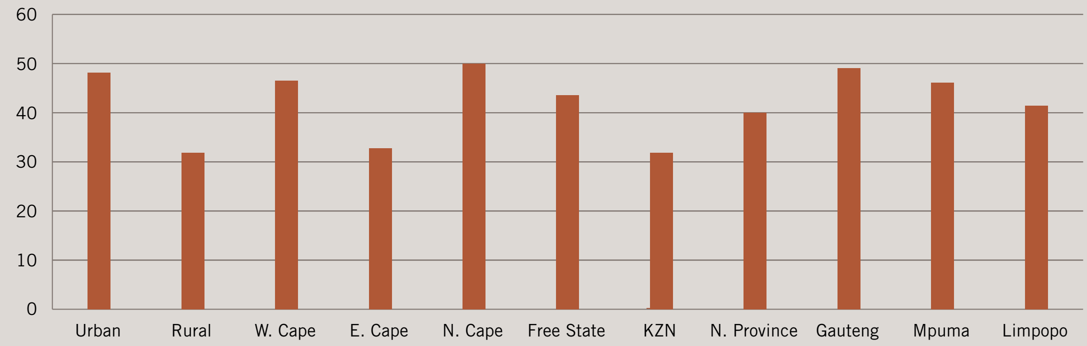
In addition, we explore how English-language proficiency varies by socio-economic background by disaggregating the sample according to the income class of the individual's household at childhood.[4] In NIDS, all adults are asked to rank the status of their household at age 15 on an economic ladder representing the national income distribution, from Rung 1 (poorest) to Rung 6 (richest). Figure 2.3.4 shows that there is a positive relationship between family income class and language proficiency – those whose families ranked on Rung 1 in the national income distribution at age 15 are 40 percentage points less likely to report being English-language proficient than are those adults whose families ranked on the highest income rung.

Figure 2.3.2: English-language proficiency by gender and age among African adults



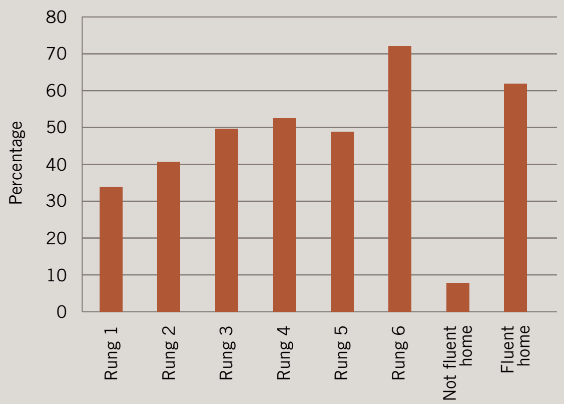
Source: Own calculations, NIDS 2008.
Notes: The data have been weighted to represent population estimates.

Figure 2.3.3: English-language proficiency by area type and province, among African adults



Source: Own calculations, NIDS 2008.
Note: The data have been weighted to represent population estimates.

Figure 2.3.4: English-language proficiency by childhood family income class and home-language proficiency among African adults



Source: Own calculations, NIDS 2008.
Note: The data have been weighted to represent population estimates.

In the light of the arguments of additive bilingualism, which suggest that a good grounding in reading and writing ability in the learner's home language is needed before these skills can be applied to the acquisition of a second language, we examine the relationship between home-language proficiency and English-language proficiency among our sample of African adults. Figure 2.3.4 shows a very strong and positive association between home-language proficiency and English-language proficiency. Among African adults who are home-language proficient, 62 per cent are also English-language proficient, compared to only 8 per cent of African adults who are not home-language proficient. Although not shown here, the results of a multivariate regression analysis confirm the descriptive findings presented in the figure (for details, see Posel & Casale, forthcoming). When controlling for the array of variables examined above, home-language proficiency and education (specifically having a matric or tertiary education) were found to be the most important predictors of English-language proficiency.

ENGLISH-LANGUAGE PROFICIENCY AND EARNINGS

The choice of English as the language of teaching and learning in most schools in South Africa is closely tied to the perception that English language skills will provide economic benefits in the labour market. Based on an in-depth study of the implementation of South Africa's Language-in-Education Policy (LiEP) in a sample of schools in the Eastern Cape, Probyn et al. (2002: 41–42) write the following:

> Parents in these schools see English as a way to 'put bread on the table', a way out of the poverty trap. Both parents and teachers equate English acquisition with time on task, and the pedagogical theories supporting home language support and additive bilingualism, as recommended in the LiEP, have not circulated among teachers or parents.

Similarly, Rassool, Edwards & Bloch (2006: 537) note that '[f]luency in English in this context has become associated with "being educated", and therefore is seen as a pre-requisite for upward social mobility'.

There is a well-developed economics literature that links language skills to labour market outcomes. Language proficiency is predicted to raise earnings, as it is considered an important component of the individual's human capital (Chiswick & Miller 1995). As with formal education, being proficient in the dominant language of a country would be expected to increase productivity on the job, or it could act as a signal to the employer of the individual's potential productivity and ability. Language proficiency would also reduce the transaction and information costs associated with job search, and it might improve the ability of the job-seeker to negotiate the terms of employment and thereby access better-paid jobs (Dustmann 1994; Shields & Wheatley Price 2002).

Much of the work on this topic has centred on the earnings advantage among immigrants of being proficient in the dominant language of the host country. The studies conducted have focused on the developed world, in countries such as the United States, Canada, the United Kingdom, Germany and Australia (see, for example, Bellante & Kogut 1998; Chiswick & Miller 1995; Dustmann & Van Soest 2002; Shields & Wheatley Price 2002). Although developing countries are a less common immigration destination, similar questions might be asked for many parts of the developing world where the dominant language is the colonial language rather than the mother tongue of the majority of the indigenous population. However, there are surprisingly few studies that explore the link between language and labour market outcomes in developing countries, probably because of a lack of suitable data (Chiswick et al. 2000).[5]

In this section, we use the NIDS data to examine the returns to dominant-language proficiency among Africans, almost all of whom are not English home-language-speakers. Table 2.3.4 provides a simple comparison of the average monthly earnings of African adults according to their self-assessed English-language proficiency. It is clear that average monthly earnings differ widely by English-language proficiency: those adults who reported that they were proficient in English earn, on average, almost three times as much as those who reported not being proficient in English.[6]

Table 2.3.4: Monthly earnings by English-language proficiency among African adults

	Average monthly earnings (rands)
English-language proficient	3 869
Not English-language proficient	1 372

Source: Own calculations, NIDS 2008.
Note: The data have been weighted to represent population estimates. English-language proficiency is defined as the self-assessed ability to both read and write very well in English.

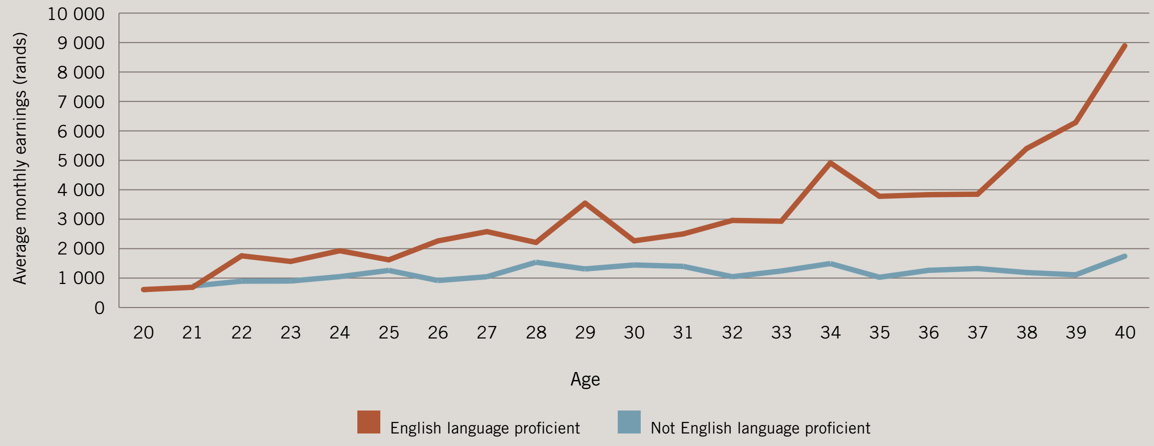
The choice of English as the language of teaching and learning in most schools in South Africa is closely tied to the perception that English language skills will provide economic benefits in the labour market.

Figure 2.3.5 plots average monthly earnings by age according to English-language proficiency. The figure shows that, among African adults who are proficient in English, average earnings increase considerably as age and, therefore, time in the labour market, increases. In contrast, those who are not English-language proficient have a relatively flat earnings trajectory. Consequently, the gap in earnings between those who are English-language proficient and those who are not widens as more time is spent in employment. This suggests that proficiency in English offers individuals more opportunities to benefit from work experience and to advance up the employment ladder.

We also compare average monthly earnings by English-language proficiency for the sample of individuals who reported having a matric or tertiary education. We do this to control for the possibility that the earnings difference we observe is due to the high correlation between education and English-language proficiency that was reported on above. Although the difference is slightly less marked than in Figure 2.3.5, Figure 2.3.6 shows, nonetheless, that, among the more educated, those who are English-language proficient continue to earn more, on average, than those who are not English-language proficient. The gap in earnings by English-language proficiency starts to grow from age 28 onwards. By age 40, African adults with at least a matric education earn more than four times as much, on average, if they are English-language proficient. It is interesting that even among those who would be considered well-educated in South Africa, the average earnings trajectory is relatively flat if they are not English-language proficient.

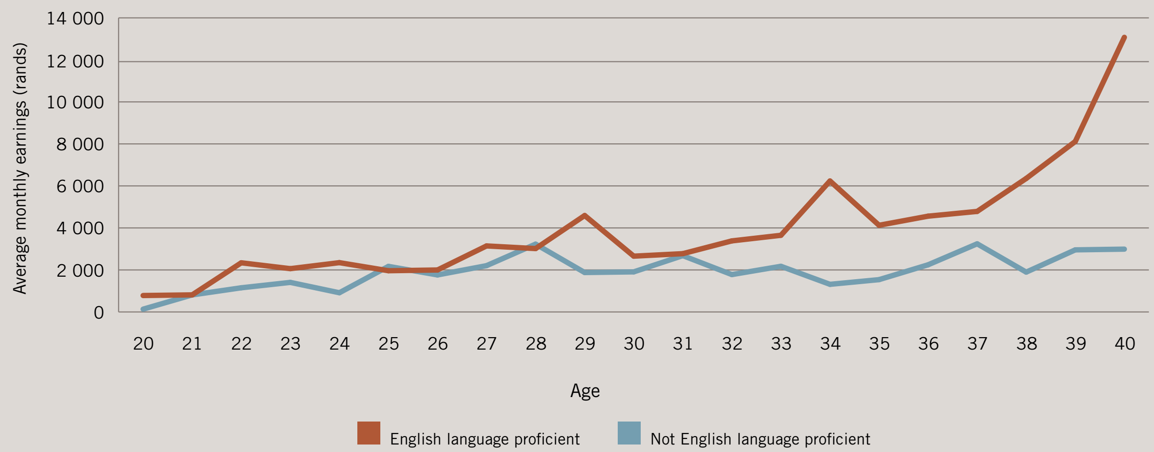
The earnings advantage of English-language proficiency

Figure 2.3.5: Average monthly earnings by age among African adults



Source: Own calculations, NIDS 2008.
Note: The data have been weighted to represent population estimates.

Figure 2.3.6: Average monthly earnings among African adults with at least a matric education



Source: Own calculations, NIDS 2008.
Note: The data have been weighted to represent population estimates.

among those with at least a matric education in South Africa may be explained by a complementarity between education and English language skills. Individuals are able to make better use of their education if they are proficient in the dominant language of the labour market. It also seems likely that employers use English-language proficiency as a way of 'screening' the quality of education of a job applicant. The value of a matric or tertiary qualification may be lower in the labour market for those who are not proficient in English because English proficiency sends a clear signal to the employer about the quality of the education attained.

Of course, there are other factors that determine earnings that we are not controlling for in our descriptive analysis, such as the gender and location of residence of the individual, as well as the type of work done. While beyond the scope of this short piece, in other work we find that when all of these variables are included in a regression analysis, the earnings premium to English-language proficiency remains large and robust (Posel & Casale, forthcoming). Individuals who are English-language proficient earn significantly more, on average, than other individuals who are the same in all observable respects but who are not English-language proficient.

However, one factor that we are unable to account for, even in a multivariate context, is a possible 'selection effect'. In other words, it may be that those individuals who are English-language proficient are different in other ways we cannot measure and that may also affect their earnings outcomes; for instance, they may be more capable or more confident individuals, attributes which influence both their ability to acquire English language skills and their performance in the labour market. If this is the case, then part of the premium that is associated with English-language proficiency may reflect these character differences, rather than English language skill per se. Although it is not possible to say anything definitive about the extent of this problem, it is highly unlikely that the observed earnings advantage among those who are proficient in English is due to a selection bias alone. English is the language in which much of business and public life is conducted in South Africa, which means that better English language skills will no doubt allow individuals with those skills to perform more effectively in their jobs and to gain access to better employment opportunities.

CONCLUSION

South Africa is a multilingual country with 11 official languages. Nonetheless, English dominates the country's political economy. In the absence of data, it was not possible previously to quantify English literacy ability or to estimate the returns to English language skills in the South African labour market.

We have analysed new data from NIDS, which collects information on the reading and writing ability of all adults, both in the individual's home language and in English. Although this information is self-reported, and individuals' assessments of their literacy ability may be inflated, the data show sensible distributions of language skills by race and across a range of demographic characteristics. The data also suggest a significant earnings advantage to being English-language proficient: African adults who report that they can read and write English 'very well' earn almost three times more, on average, than African adults who do not report these skills.

The positive association between labour market success and English language skills, together with the negative association between mother-tongue learning and Bantu education under apartheid, helps to explain why most African mother-tongue learners in South Africa are schooled in English, and often from a very young age. However, there is now an extensive literature which suggests that the early introduction of English as the language of instruction has been counterproductive, both for literacy ability and for educational attainment more generally. For the development of language and cognitive skills, it is argued that children should first have mastered reading and writing skills in their home language, before being exposed to learning, and being taught in, a second language. Consistent with these arguments, we find that African adults who are proficient in their home language are far more likely also to be proficient in English.

NOTES

1 NIDS is a nationally representative household survey, designed as a panel study (with the first wave in 2008), which will track approximately 28 000 individuals in 7 300 households at two-year intervals. It is conducted by the Southern Africa Labour and Development Research Unit (SALDRU) based at the University of Cape Town. Details can be found at www.nids.uct.ac.za.

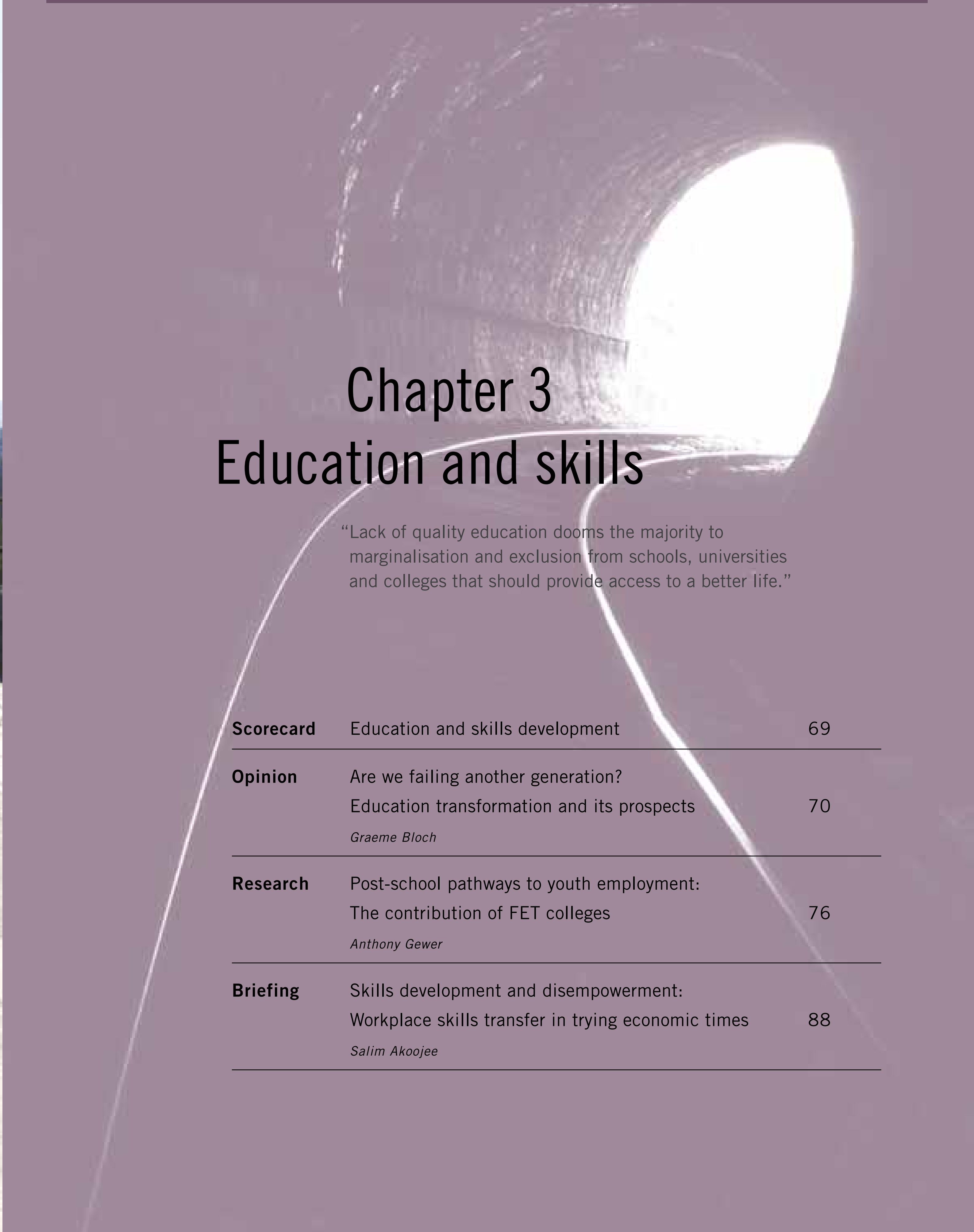
2 The questions on ability to read and write in these surveys do not specify which language, but we would assume that most people would report information on literacy ability in their home language or mother tongue.

3 There is a very high correlation between reading and writing ability across the varying levels of ability; for example, almost everyone who reports reading 'very well' in English also reports writing 'very well' in English.

4 We explore the relationship between English-language proficiency and economic status during childhood, rather than current economic status because, as we show in the next section, English-language proficiency itself is likely to have a positive effect on earnings and, therefore, on current economic status. In addition, we might expect economic status during childhood to be the relevant variable if language skills are acquired predominantly during the individual's schooling years.

5 There is, similarly, very little research that we are aware of on this topic for South Africa. Cornwell and Inder (2008) use national data on home language from 1996 to 1998 to explore labour market outcomes. They find that, as expected, Africans whose home language is English have better employment and earnings outcomes compared to African home language speakers. However, their study is very limited in scope, as less than 1 per cent of Africans report English as their home language (a sample of individuals who are also likely to be quite different from the broader population of Africans for reasons other than their home language). Deumert et al. (2005) find that migrants faced better employment opportunities if they had a greater knowledge of the dominant languages in the area, but these findings are based on a small-scale study of rural-urban labour migrants in four low-income areas in Cape Town only.

6 African adults who are proficient in their home language also, on average, earn more than adults who are not home-language proficient (R2 977 compared to R1 335 per month), although the difference in average earnings is not as pronounced as that by English-language proficiency. Further investigation of these earnings differences in a multivariate context, which controls for a number of individual and job characteristics, shows that the earnings premium to English-language proficiency is more than double the premium to home-language proficiency among African adults (Posel & Casale, forthcoming).



Chapter 3
Education and skills

"Lack of quality education dooms the majority to marginalisation and exclusion from schools, universities and colleges that should provide access to a better life."

overview

The first contribution to this chapter, by **Graeme Bloch**, looks at the current state of education and pays particular attention to the impact that the protracted public service strike in 2010 has had on teaching and, ultimately, what this means for matric results. According to Bloch, South Africa stands accused of failing another generation in accessing the opportunities that a democratic South Africa is supposed to offer. The politics of present-day education, displayed once again during the strike, do not seem to prioritise learners and the role that education ought to play in the development of the country. He ascribes this unfortunate state of affairs to the demobilisation of the vibrant education movement that existed before 1994, and warns that the lack of common vision will continue to erode the system. Bloch concludes that, since our development strategies draw such a strong link between education and a decrease in poverty and inequality, the government needs to show far greater urgency in addressing the drivers of poor education.

In the following contribution, **Anthony Gewer** explores the opportunities that FET (further education and training) colleges offer in terms of increasing the employability of the almost 2.8 million young South Africans who are not employed or do not find themselves in education and training institutions. Since the labour market has been slow in creating new entry-level job opportunities, particularly in the wake of the recession, these young people have little currency to compete for the few positions that do exist. While FETs were relegated to the periphery of the education and training system over the past 16 years, their recent elevation and mainstreaming within the emerging post-school education landscape now positions them to make a very significant contribution in this regard. Because their primary goal is to make young people, who are out of school and out of work, employable, Gewer's contribution proposes that the FET mandate not only should include the provision of the necessary skills to compete for employment opportunities, but also should address the key obstacles that keep them from entering the labour market.

Salim Akoojee, in the final contribution to this chapter, explores the ramifications of the recession (and the sluggish growth that followed thereafter) for national and firm-level skills-development initiatives. While such crises inevitably have adverse consequences for company turnover, Akoojee contends that they also present opportunities in terms of the enhancement of skills and, in the case of South Africa, the achievement of greater levels of equity. His results show some startling features of the impact at a national level and on skills development in particular. On the basis of survey research and interviews, Akoojee finds that, as profitability declined, firm-level initiatives were either shelved or scaled down as cost-saving measures. Where hiring has taken place, it has been predominantly in the appointment of candidates already possessing the required skills. The article concludes that the responses of the government and industry have not managed to engage meaningfully with key national prerogatives for workplace transformation, such as equity and skills.

Education and skills development scorecard

Transformation goal	A human resources development system that produces an employable labour force and provides the necessary scarce skills to sustain economic growth					
Desired outcome	**Indicator**	**Status 1990–1994**	**Status 2007**	**Status 2008**	**Status 2009**	**Positive development**
Providing scarce skills to grow the economy	Matric passes as percentage of cohort*	33.20% 271 098	37.35% 368 217	33.57% 334 239	37.18% 373 829	↓
	Matric maths HG passes as percentage of cohort	2.73% 22 300	2.5% 25 509	n.a.	n.a.	
	Matric maths passes (new subject) as percentage of cohort	n.a.	n.a.	14.62% 145 543	13.84% 139 206	↓
	University endorsements*	9.64% 78 713	8.67% 85 454	13.52% 134 644	12.80% 128 697	↑
	Degrees conferred by universities**	46 688	77 980 (2006)	77 511 (2007)	85 320 (2008)	↓
Employable labour force	Average years of schooling successfully completed in the 20 to 24-year-old cohort	9.66	10.23	10.36	10.47	↑

Sources: Departments of Basic Education and Higher Education, various databases; and Statistics South Africa, *October Household Surveys & Labour Force Surveys*, various years. As the Department of Basic Education could not provide full supplementary examination results, these had to be estimated using an adjustment advised by Martin Gustafsson. Note also that some of the data in the previous year's transformation audit reflected numbers before rather than after the supplementary examination.

* No direct comparisons in standards are possible with regard to school education between 2008 and 2009 and earlier years. Note the large jump in Mathematics passes in 2008; even if a stricter pass criterion of 40% rather than 30% is applied to the new Mathematics results, Maths passes still amounted to 89 788, compared to 25 509 HG Maths passes in 2007. On the other hand, Matric passes showed a marked decline, while university endorsements (in 2008 endorsement for Bachelor's studies) were strongly up. These changes are largely driven by altered standards.

** This includes degrees conferred by universities of technology and distance education institutions. For comparability purposes, degrees conferred by former technikons are therefore included in the older data. Due to delays in data availability, earlier data than the year shown are used in cases where indicated. The 2007 figure is an unaudited estimate.

The completely different new matriculation examination introduced in 2008 makes comparisons of the quality of the output across time problematic. It involved structural changes in the curriculum, subject content, assessment and even subjects offered. A brief analysis of three output measures between 2007 and 2008 is nevertheless revealing. The number of successful matriculants declined by about 34 000 or 9.3%, indicating a greater overall difficulty level (although some of this decline may simply reflect that teachers have not yet come to grips with the new curricula). On the other hand, the numbers qualifying for entrance to university at the Bachelor's level increases sharply by some 23 000 or 25.8% compared to the old university endorsements or matriculation exemption. This allows somewhat weaker candidates to enter university. Given already high university failure rates, these institutions are reluctant to admit even greater numbers of weaker candidates and some have strengthened their own entry tests as a tool to ensure that they only admit candidates with the background and potential to be successful at university level.

Until 2007, matriculants had the option to take Mathematics at the Higher Grade or the Standard Grade level, or not to take Mathematics at all. Since 2008, all matriculants have to choose between two new subjects, Mathematics Literacy (an elementary version of Mathematics) or Mathematics, which lies somewhere between the old Mathematics Higher Grade and Mathematics Standard Grade. There were some 25 500 successful candidates in Mathematics Higher Grade in 2007, while more than five times as many, some 145 000, successfully completed the new subject, Mathematics. It is thus clear that the new subject, Mathematics, is far easier to pass than the old HG Mathematics. Universities contend that many students are not being extended enough in Mathematics at school and come to university under-prepared for the rigorous courses required at this level.

opinion

ARE WE FAILING ANOTHER GENERATION? EDUCATION TRANSFORMATION AND ITS PROSPECTS

Graeme Bloch

Once again, South Africa stands accused of having failed a generation. Once again, young people have not received the opportunities they deserve or the possibilities for a better life that education can create.

INTRODUCTION

Education has probably survived the 2010 public sector strike. However, strikes and threats by teachers, stay-aways, boycotts and violence by learners cannot but destabilise education and negatively affect relations between stakeholders (including officials, departments, unions and learners themselves). The strike is likely to have had an impact on matric results in 2010.

Despite many pupils' best intentions, despite a range of catch-up programmes, holiday camps and heart-wrenching self-study groups, learning and teaching were severely damaged in 2010. From the highs in the country during the World Cup to the agonising decisions around preliminary exams and final results, hearts must go out to this generation of aspirant matriculants.

Once again, South Africa stands accused of having failed a generation. Once again, young people have not received the opportunities they deserve or the possibilities for a better life that education can create. Once again, township and poor rural schools have suffered and black children have fallen behind. Such inequalities in a new democracy are unsustainable for all.

The worst excesses of the South African Democratic Teachers' Union (SADTU) – the threatening of pupils, violence against teachers and study groups, the storming of Equal Education offices – and anarchic or even hooligan behaviour in the name of the Congress of South African Students (COSAS) need to be confronted.

More importantly, perhaps, recent events are signals that education remains frayed at the edges and that the crisis is deep. The unacceptable behaviour of stakeholders, which sets education back, reflects that there is much that needs to be fixed. The task in education remains vast, and lack of common vision means an absence of agreed priorities and focused work.

We have lost focus and direction in education since 1994. We demobilised a vibrant education movement. We forgot to stress excellence as the foundation of achievement. We forgot the basic details of literacy and numeracy. Other sins of society – poverty and unacceptable inequalities – affected education. We lacked the vision of what education could be and do in a developing economy and society like ours.

Outcomes-based education (OBE) is one example of government failure, a distraction and a negative roadblock, which required proper facilities and confident teachers that were not yet in place. It held teachers back from teaching the basic foundations of maths and literacy, and was interpreted rigidly with much departmental paperwork. Despite many good points, OBE had to go.

In looking forward, change is clearly on the agenda. The government should listen carefully and consult widely; there is no need to rush things or to do them badly. As a start, teachers need more specific guidance and support, better workbooks, less paperwork, and proper inspection procedures.

The task of improving education outcomes is daunting. It has to find its measure across schools, and in institutions such as Further Education and Training (FET) colleges and universities. Graduates need to be able to look forward to decent employment.

First prize would be to develop national debate and consensus around priorities. Then teachers and their issues need to be addressed and ways found to get them on board – teachers are a central part of any solution.

Schools of education at universities could do much more and could expand access for new teachers dramatically. Some form of new training institution appears necessary. A large part of the solution lies in properly functioning support and accountability systems at the coalface of teaching.

Other urgent tasks going forward are to fix education districts and ensure that provinces have working operational structures with helpful and competent officials. Teachers, officials and politicians must be held to account.

Politicians and others must lead boldly from the front. Large numbers of people out there want to help. Parents desperately want the best for their children. The country cannot do everything all at once, but with hands-on and full-time vision, with clear plans and goals, education issues can be tackled. We need the best for our nation.

The most basic measures of improvement are Grade 3 and 6 results in literacy and numeracy, matric passes and throughput. Are there jobs and vocational and tertiary options?

Change is 'complex', though – we need schools to nurture young people's talent, give them opportunities, teach them to work hard and to be the best. How does one measure good citizenship, a sense of solidarity and tolerance, sportsmanship and a caring approach? Young people must shoot for the stars.

There has been growing public concern around education, reflected in consistent media coverage and debates on issues such as the role of teachers' unions, OBE and poor outcomes, heightened by the teachers' strike.

Marches by 10 000 young people for libraries under the Equal Education banner and the National Teachers' Union (NTU) indaba in 2009 with religious leaders, chiefs, mayors, principals, teachers and learners in KwaZulu-Natal both show the direct involvement of organised elements in civil society and the willingness of community-based organisations to make a difference. These multi-stakeholder alliances are the way forward

A range of clustered, community-based interventions from Hantam/Colesburg to Bitou/Plettenberg Bay, to Hermanus, Soweto and elsewhere, and a host of active NGOs and (business) funders point to a rich resource of experience and assets available for education renewal.

Questions are clearly on the agenda about appropriate change models and best practice, about clustering, multi-stakeholder alliances and the link between 'citizen' initiatives from below with official response and policy from above. Issues include how to change teaching practices and the behaviour of officials. Partnerships, and focused non-bureaucratic responses to teacher support, require new management skills and training.

Education is closely linked to outcomes, such as in health or jobs that impact on poverty. Quality education as a central goal of South Africa's development strategy reflects the assumed relation between education and the ending of inequality.

WHY THE EMPHASIS ON EDUCATION?

The most obvious reason for education, and that most stressed, is the link to employment. Education provides the skills and competencies that allow individuals to perform productive roles within an economy and society. Education helps individuals to achieve their own economic, social and cultural goals. It helps society 'to be better protected, better served by its leaders and more equitable' (UNESCO 2004: 224).

Schooling is not just about knowledge and skills; it is also about values, attitudes, and creative and emotional development, all of which contribute to 'responsible, active and productive citizenship' (UNESCO 2004: 226).

The focus in much education literature has also moved beyond educational expansion ('Education for All', see UNESCO 2007) and a narrow stress on inputs and quantity to a much more rights-based concern with quality education. This guides and informs educational content and processes and more general social goals.

The United Nations Educational, Scientific and Cultural Organisation (UNESCO) emphasises three core principles underlying quality: relevance; greater equity and access of outcome; and observance of individual rights. Poverty, rural status and gender, combined with poor instruction, have been shown to be three determinants of lack of access and poor educational outcomes.

Education is embedded in society, subject to pressures and influences from a variety of sources. The relationships required to sustain the education project are extremely complex. Many of the pressures appear from outside of the strictly educational terrain – from globalisation, to levels of unemployment and economic growth, to cultures and attitudes, to whether learners arrive at school hungry – yet have fundamental impacts. Many of these are rooted in the history of a country and cannot be shaken off or changed overnight.

Furthermore, interventions in education are difficult and multifaceted. Straightforward relations between conditions of education and its outcomes are not easy to determine. Single interventions have a range of influences and unintended consequences. Interventions need to be carefully contextualised and situationally relevant, integrating and aligning with other social processes to achieve their objectives. As UNESCO (2004: 228) puts it:

> Schools are definitely not factories producing outputs according to recipe in a technically deterministic way. Crucial to their effectiveness is the education process itself, in which teachers and pupils use the available inputs and interact with each other in creative ways.

The growth of global knowledge-based economies underlines the need for strategies to foreground high-level skills that are competitive on the global stage. At the same time, the effects of globalisation often marginalise and degrade lower-level skills and occupations as economic sectors collapse under the competitive pressures of low-wage economies such as China.

The effects of these processes are uneven and varied. The changed global context, overlaid on the inflexibility and inefficiencies of apartheid education, has spelt difficulties indeed for any transition and the emergence of equitable, sustainable and developmental education options.

ACHIEVEMENTS SINCE 1994

There have been significant achievements in the first 16 years of democracy in turning around apartheid education and its gross inequalities, not the least of which was ensuring compulsory primary education. The Millennium Development Goals (MDGs) for education have already been met in South Africa, as universal primary education and gender balances in schools go beyond the targets set to be reached by 2015.

Further advances include the amalgamation and unification of apartheid education systems and bantustan establishments into a single national department responsible for broad policy and provincial structures responsible for delivery. The South African Schools Act 84 of 1996 laid the basis for a non-racial approach to education. Strides were made towards equalising expenditure across the racial divides and in relation to provincial inequalities, as well as dealing with issues such as size of classes, access to teachers and course materials and so on, through the new National Norms and Standards for School Funding, which emphasised pro-poor expenditure. Policy papers, reports, legislation, implementation directives and institutional development show progress across many branches of education, from higher to vocational.

Important achievements since 1994 include:

- access to primary and secondary schooling having improved to near universal enrolment (the participation rate among girls is among the highest in the world);
- the number of pupils progressing to higher levels of schooling having increased significantly;
- poor learners being exempt from paying school fees, and discrimination against learners who cannot afford school fees having been outlawed;
- the matriculation pass rate having increased from 58 per cent in 1994 to 65 per cent in 2007 (falling in recent years to approximately 60 per cent); and
- pupil-to-teacher ratios having improved from 43:1 in 1996 to 32:1 in 2006 (DBSA 2009)

> Sixteen years after apartheid, the education context can be described as one of crisis.

These figures show that, despite the massive challenges of transformation, there is clearly a positive continuity and logistical capability in the school and wider education system. There are important levels of stabilisation and delivery, and a cohort of students that is managing to attain high levels of achievement.

CAUSES OF POOR EDUCATION

Unfortunately, the gains made need to be offset against significant problems, and these problems become more intractable in the context of searingly competitive demands globally and a local context of deep inequalities and poverty traps.

Sixteen years after apartheid, the education context can be described as one of crisis.

Inadequate outcomes in terms of standard scores for literacy, mathematics and science, where South Africa routinely has come close to last, even amongst less-developed and less-resourced African countries, means skills scarcities and dependencies. These have their roots in an inadequate baseline of achievement within the schooling system from very early grade levels.

Poor outcomes impact heavily on poor, rural and township (predominantly black) schools. While a small portion of schools achieves success, 60–80 per cent of the schools, however measured, remain dysfunctional. Gangsterism, ill-discipline, hunger and AIDS impact negatively on the social functioning of schools. Teacher issues, for a variety of reasons, have resulted in a largely dispirited, demoralised, underperforming and angry teacher corps, and again this has impacted particularly on poorer schools. There are effectively 'two school systems'.

These concerns – publicly acknowledged by education authorities – found expression in, amongst other places, education resolutions at the ANC conference in Polokwane. This important conference defined a far more grassroots-based and mobilisational approach by the ruling party (and, of course, resulted in the election of Jacob Zuma as ANC president).

In education, there was a call for attention to the impacts of poverty on schooling, and for access issues of the poor, including nutrition schemes and the extension of non-fee-paying schools to 60 per cent (from 40 per cent) of schools, to be addressed. In addition, there was a call to 'restore teaching to the noble profession' it once had been. In return for this commitment by society, teachers were to reciprocate by providing 'in-class, on-time teaching'. Education must go beyond being a concern of the education department, and become the concern of the government as a whole.

If there is one phrase that summarises the shortcomings of the education system, it is 'poor quality'. In failing to achieve quality delivery, the education system is working for only a small proportion of the learners who access relevant institutions. Lack of quality education dooms the majority to marginalisation and exclusion from schools, universities and colleges that should provide access to a better life.

Education tends to reinforce social and economic marginalisation of the poor and vulnerable in South Africa, and reinforces their survivalist position with few prospects for movement or further development.

DRIVERS OF POOR EDUCATION

The Education Roadmap (DBSA 2009) addresses various drivers of poor education.[1]

Socio-economic status

A factor hindering educational advancement is social disadvantage. The level of parental education and socio-economic status are strong predictors of educational outcomes and, consequently, limit inter-generational social mobility.

Teachers

Teachers are not assessing learners accurately; the subject knowledge of teachers is poor; learners have no mechanism for benchmarking themselves and, thus, are unable to improve their results; parents receive inadequate feedback; and systems to support teacher assessment (for example, common assessment instruments) are needed.

Teacher knowledge has been called into question, and the quality of teaching is central to the crisis in education. Effective teacher development is critical. In addition to the problem of quality of teaching, the quantity of teachers emerges as presenting challenges too. Poor teacher remuneration accounts for some of the loss. It is hard to retain teachers, particularly the better quality teachers, in the profession. Salaries are not commensurate with the responsibility that teachers bear.

The department is beginning to focus on performance and evaluation; however, there are obstacles to overcome. The negative experience of inspection in African schools during apartheid remains in the system's memory, while, effectively, teacher appraisal has been absent in the post-1994 era.

Dysfunctional schools

The above-mentioned trends have resulted in a middle- and working-class exodus from dysfunctional schools. At great cost, many poorer parents have opted to send their children from the township to schools in the suburbs.

OBE in schools without capacity

Criticism of OBE in schools has resulted in a revision. OBE requires teachers to have considerable subject knowledge and skill, and schools to have an adequate level of resources. The problem is exacerbated with most pupils not being taught in their home language, making learning more difficult for them.

The Organisation for Economic Co-operation and Development's Review of national policies for education: South Africa (OECD 2008) notes that the National Curriculum Statement is 'a fine vision, but in the reality of the average South African school, it does not hold true' and that 'in early grades, less is more'.

Financial resources

There was a reduction in real spending on education between 1996 and 2002, after which a real 18 per cent increase to 2007 occurred. While education spending is 5 per cent of GDP, this is below the UNESCO benchmark of 6 per cent. In addition, the system is subject to considerable inefficiencies (such as in textbook procurement, feeding schemes and scholar transport). The proportion of provincial budgets expended on education has fallen.

Many schools suffer an infrastructure backlog. The National Education Infrastructure Management System (NEIMS) indicates that:

- 42 per cent of schools are overcrowded;
- 3 152 are without water;
- 1 532 are without toilets;
- 4 297 are without electricity;
- 79 per cent are without libraries;
- 68 per cent are without computers; and
- 60 per cent are without laboratories.

NEIMS estimates that capital expenditure of R153 billion is required to overcome this backlog, and a further R30 billion is required for maintenance. This compares unfavourably with the R18 billion budgeted over the next three years.

The proportion of learners at the poorest two quintiles

(40 per cent) of schools, which are no-fee schools, range from 56 per cent in the Eastern Cape to 14 per cent in the richer Western Cape. A new policy decision has been taken to increase the no-fee schools from the poorest 40 per cent to the poorest 60 per cent (quintile 3). It is noted that schools that are prohibited from charging fees must receive adequate compensatory transfers from the government, and in good time, or run the risk of going into decline.

Responsibilities and accountabilities

There is insufficient alignment between the national and provincial levels of the Department of Education. National government has exclusive legislative responsibility for tertiary education, and concurrent responsibility with the provinces for all other levels of education. National government, working with the provinces, formulates national policy. However, while provincial governments must implement nationally determined policy, the provinces are not obliged to observe national priorities, particularly regarding allocation of financial resources.

EDUCATION INEQUALITY SUMMARISED

While formerly white Model-C schools produce uniformly better results, (black) rural and township schools overwhelmingly survive through sheer will and the force of good and committed teachers. About half of the cohort that starts school never finishes, with Grade 9 being a major point of drop-out. It is not (only) money or even physical infrastructure that is important; rather, it is how the education process is ordered, managed and translated into classroom practice.

Poor schools effectively play a warehousing function or have become 'sinkholes', with some notable exceptions. In short, black rural and poor township schools form a second system of education, trapping participants behind massive blocks.

Comparative scores for maths, numeracy and literacy in South Africa are consistently among the worst in the world. The Southern and Eastern Africa Consortium for Measuring Educational Quality (SACMEQ), the Trends in International Mathematics and Science Study (TIMSS), the Progress in International Reading Literacy Study (PIRLS) and other official tests all show South Africa's poor performance relative to other southern African countries (see Bloch 2009). While skills at the top end may be cutting-edge, there is not the broad base to ensure adequate responsiveness to the changing pressures of globalisation and the knowledge economy.

In short, black rural and poor township schools form a second system of education, trapping participants behind massive blocks.

Recent national tests showed that while some 65 per cent of Grade-6 learners in Model C schools in the Western Cape performed at Grade-6 level (which is by no means impressive), this figure dropped to some 3 per cent in ex-Department of Education and Culture schools and a frightening 0.1 per cent in ex-Department of Education and Training schools (Soudien 2005).

The numbers matriculating are not much higher than in 1994, with similarly poor higher-grade maths and university-exemption passes. Soudien (2005) estimates that perhaps only 52 out of every 100 who start Grade 1 make it to Grade 12.

Taylor (2006) reports that 79 per cent of high schools fall into the poorly performing category, producing 15 per cent of the higher-grade passes in mathematics, while two-thirds of the passes are produced by 7 per cent of the schools. As he records:

> Hundreds of thousands of our children leave our schools every year without the foundation skills needed to benefit from further education or to secure anything but the most menial jobs. More disturbing is that dysfunctional schools are unable to socialize young people into the attitudes of mind required for citizenship in a democracy…school leavers are easy prey to a life of crime, poverty, corruption and inefficiency.

Van der Berg (2005: 62) observes that 'the school system is not yet capable of systematically enabling learners to overcome inherited socio-economic disadvantage, and poor schools least so.' He adds:

> The degree to which South African students are disadvantaged on account of their background is exacerbated by marked inequality in outcomes between schools. This large shift in outcomes between the most affluent schools and the rest reflects the fact that a major part of the educational performance disparity in South Africa is between rich (mainly historically white and Indian schools), on the one hand, and the 80 per cent of other schools. (Van der Berg 2005: 67)

These systemic problems are compounded by the high levels of unemployment, in particular amongst youth.

LOOKING FORWARD

In looking to address the negative drivers of education, and to set specific, achievable targets in phases by 2025, it is useful to note and align with targeting processes already underway in the government, such as the targets set in the Monitoring and Evaluation Commission in the Presidency, as well as analyses in the Department of Basic Education's sector plan for 2025, Vision 2025 (see Government Gazette 33434, 2.08.10).

Effective interventions would have to operate at three levels simultaneously:

- *In-class*: what happens in the classroom itself, specifically how teachers 'come to the party' and ensure that quality learning takes place.
- *Support to schools*: this speaks to the pedagogical, administrative and social support that is provided by principals and departmental officials to ensure that schools are able to function and that teachers can get on with the job of teaching and learners can learn.
- *The societal level*: this includes addressing backlogs in facilities, the impacts of poverty (such as hunger, poor eyesight and health), transport needs, HIV/AIDS, gangs and so on, as well as parents' difficulties in providing support and the need for a broad social compact around education as a national priority.

While money is clearly an issue, especially in addressing physical backlogs and needs, the core issues are around the functioning and efficiency of the system, its procedures, monitoring and delivery processes.

What is crucial in the government's suggested long-term plans is less the detail than the visioning and planning. Key targets must be set, and priority areas for intervention must be identified. The precise detail will vary as national dialogue is encouraged.

Key intervention areas would include:

- the implementation of institutional fixes, especially to ensure functioning districts where concrete pedagogical and administrative support can be addressed by the government and officials, as well as constructive and tailored approaches to monitoring and evaluation;
- training and support, especially in the management skills of principals, in stakeholder-partnering by officials, and in various forms of pre- and in-service support to teachers;
- NGOs and civil society playing a key role in mobilising skills and support, as well as pressuring for effective delivery; and
- perhaps most importantly, social mobilisation and effective political leadership.

CONCLUSION

A comprehensive approach to education policy will have to be put forward. Planning and priorities for the short and medium term need to be developed, and a clear national consensus among stakeholders must be elaborated. This should be based on the government's priorities, and on a situational and contextual analysis of education realities, achievements and failings. A strong and principle-driven commitment to increased involvement in the education arena will also have to explore the range of non-school interventions that need to be co-ordinated to impact on schooling.

There will be short-term achievements (e.g. health screening and glasses for pupils) as well as longer-term interventions. There is an improved 'policy space' in education, but there are no guarantees.

With coherent priorities and clear plans, positive tendencies can be fashioned into real improvements in education outcomes. There is no silver bullet, and while some education outcomes may be improved quickly, consistent improvements will necessarily take time. It is unclear how the strike of 2010 will impact, whether teachers will feel embittered, how relations will be repaired, and what pupils' responses will be.

Education improvement can secure the future of South Africa's and the region's human capabilities and resources, adding to the range of skills and productive employment, as well as to the good health, empowerment and participation of citizens in building democracy and development with growth across the region and continent.

NOTES

1 This section draws heavily on DBSA (2009), which was written by the present author.

research

POST-SCHOOL PATHWAYS TO YOUTH EMPLOYMENT: THE CONTRIBUTION OF FET COLLEGES

Anthony Gewer

INTRODUCTION

The immense challenge of the 2.8 million NEETs (youth that are not in employment, education or training) has been at the forefront of public debate over the last year, most particularly for the new Department of Higher Education and Training (DHET). The DHET has the responsibility for creating a post-school system that can accommodate the approximately one million young people who exit the schooling system each year, the large majority of whom have not had access to good quality vocational education and training (VET). These youth enter an unfriendly labour market, which has not been able to create many new entry-level jobs, with little currency to compete for the few positions that do exist.

Public Further Education and Training (FET) colleges are important post-school public resources that have the capacity to prepare a large number of these school leavers for various learning and career pathways and, thereby, to enhance the quality of the labour pool. Since the onset of democratic rule, however, FET colleges have been relegated to the periphery of the education and training system, where they have operated in the absence of any coherent strategy for them to support the skills pipeline. The recent elevation and mainstreaming of FET colleges within the emerging post-school education landscape now provides the opportunity for this to occur.

As such, it is opportune to ask the question of what the purpose of the FET college is, and what role it should play within the skills and education sector. This article proposes that the primary role of FET colleges, beyond the delivery of the formal curriculum, is to prepare young people to be *employable*. This includes providing the necessary currency to compete for employment opportunities, and addressing some of the obstacles to entering the labour market.

TACKLING KEY ISSUES IN FET COLLEGES

FET colleges serve a dual purpose in the post-school education arena. Primarily, colleges offer post-school youth with a strong theoretical foundation in disciplinary knowledge, which equips them to enter into higher education, to access academic qualifications, or the workplace for further training towards specialised occupations, including through apprenticeships. In addition, however, colleges can offer school leavers, as well as employed and unemployed people, the theoretical elements of an occupational qualification that leads to a formally recognised trade or occupation.

The traditional role of colleges was to provide the theoretical foundation for the apprenticeship system through the National Technical Education (NATED) programmes. With the decline of the apprenticeship system towards the end of the last century, there has been an increasing distance between the colleges and the workplace, with programmes being offered in isolation from any practical or workplace experience. With the onset of the National Skills Development Strategy and the implementation of learnerships, it was expected that there would no longer be a need for NATED programmes.

In 2007, the Department of Education introduced the National Certificate (Vocational), or NCV, in public FET colleges in order to provide a high quality three-year general vocational qualification, which would prepare young people for entry into the workplace or higher education. Originally, the NCV was targeted at Grade 9 school leavers, and its intention was to provide an alternative stream for learners who were not coping in mainstream secondary schooling. The NCV is geared to preparing young people for a range of occupations, and offers both theoretical and practical instruction (in workshops). The NCV provides a precursor to any on-the-job training, and it would be expected that by the time the young person enters the workplace he or she would be easily trainable in any of the specialised occupations. The assumption is that if this general vocational preparation were done well, any on-the-job training could be streamlined, and industry ultimately would be released from some of the

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However, the NCV has operated under a cloud of suspicion on the part of industry since its implementation, largely because industry had become familiar with the NATED programmes that served its training needs for artisans. Moreover, the implementation of the NCV was not accompanied by a strong programme to develop capacity within the colleges, which resulted in the colleges struggling to cope with the delivery demands of the new curriculum. Most fundamentally, colleges were burdened with the fallout from a poorly performing schooling system. Therefore, learners who made limited progress in school and who lacked many of the foundational skills were faced with a curriculum that was found to be as difficult as (or more difficult in certain aspects than) that offered at school. Finally, the absence of effective learner support systems limited the scope of assistance available in making the correct learning decisions.

As a result, the performance of learners on the NCV has been poor, and this has constricted the output of graduates from colleges, which has added to industry's negative perceptions and potentially has increased the barriers to employability. On the positive side, feedback from a limited number of employers that have had exposure to NCV learners is to the effect that these learners are equipped with a stronger foundation and are likely to learn quicker on the job than NATED learners. As the quality of instruction improves and the supply of NCV learners increases, the preparedness of these learners for the workplace will require further measurement.

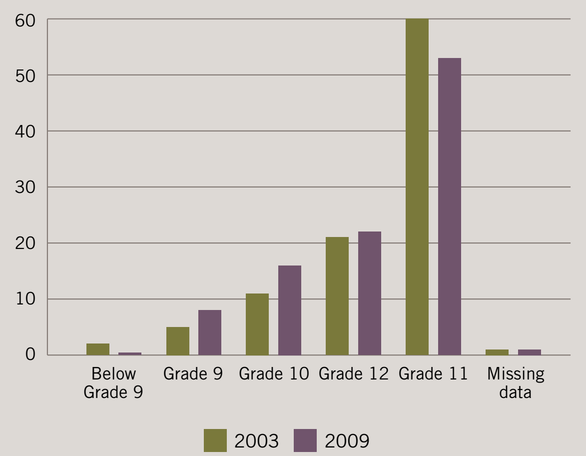
THE PROFILE OF A FET COLLEGE LEARNER

A comparative survey of FET college learners in 2003 and 2009 across four provinces (Gauteng, Limpopo, KwaZulu-Natal and the Western Cape) provides some insights into who the FET college learner is and how this may have changed over time.[1]

Typically, FET colleges have been perceived as the dumping ground for school drop-outs (mostly those unable to proceed much higher than Grade 9). A further perception is that FET colleges serve the needs of learners who cannot cope with the demands of a formal academic curriculum, and who need to find the quickest possible route to employment. The emerging data appear to dispute both of these perceptions.

In the first instance, as indicated in Figure 3.2.1, the majority of FET college learners, in fact, already have obtained a Grade 12 certificate, and few of these learners dropped out at Grade 9 or Grade 10.

Figure 3.2.1: Highest school qualification of respondents, 2003 and 2009



Therefore, while the NCV was targeted primarily at pre-Grade 12 learners, it would seem that the majority of learners view the colleges as a post-secondary learning option.

However, as Figure 3.2.2 suggests, there is a clear discrepancy across fields with respect to entry qualifications. Whereas the engineering and information technology (IT) fields are attracting more school leavers with Grade 12 certificates, the business-oriented fields and, more noticeably, hospitality and tourism are attracting more pre-Grade 12s.

Figure 3.2.2: Students with Grade 12 qualification by field of study, 2009

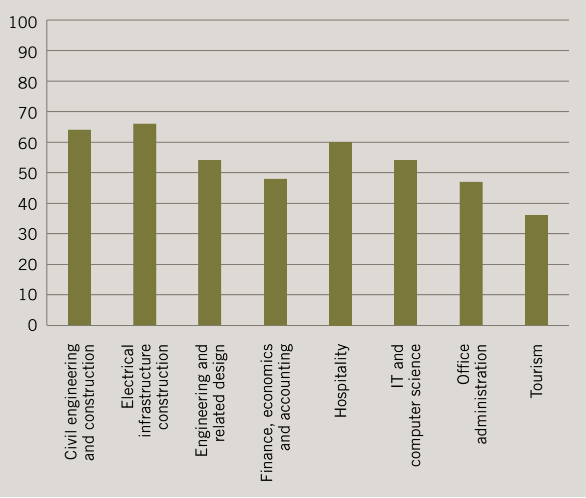
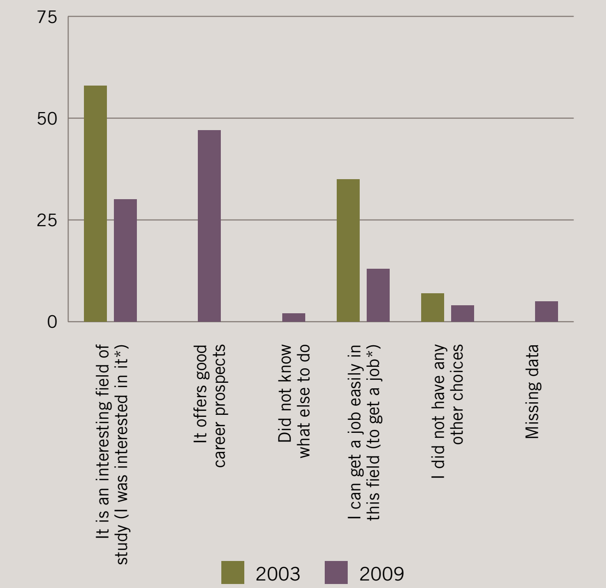


Figure 3.2.3: Reason for choosing field of study, 2003 and 2009



Note: *Additional answer options were provided for the 2009 survey respondents.

Therefore, despite the fact that colleges have been positioned as a parallel stream to the schooling system, the NCV offers a post-school learning option for many Grade 12 school leavers, particularly those wanting to study engineering or IT.

Figure 3.2.3 indicates the motives behind college learners in choosing to enrol in a college. Typically, young people are choosing to enrol in colleges to pursue a field of interest and enhance their career prospects, rather than seeking a quick route to employment.

In addition, the data suggest that FET college learners have the following characteristics:

- they are mostly from impoverished households that earn less than R6 000 per annum;
- more than half are reliant on bursaries to fund their studies;
- if studying at a Gauteng college, they probably would have migrated there from a rural province; and
- there are limited resources outside of the family to provide the necessary guidance to young people on career and learning choices.

WHAT ROLE DO COLLEGES PLAY IN SUPPORTING THE TRANSITION TO THE WORLD OF WORK?

The 2003 and 2009 learner surveys sought to analyse the extent to which the colleges have taken on the expected role of preparing young people for the workplace. In general, the survey revealed that while the learners were generally positive about the quality of teaching and learning in the classroom, they felt that colleges were weak in exposing students to workplaces, and particularly so in creating opportunities for students to meet with or be interviewed by employers (see Figure 3.2.4).

The ratings on these various aspects seem to vary across provinces, with the Western Cape colleges performing the best, and Gauteng colleges generally performing worst. Limpopo colleges appear to operate along the mean, despite the fact that there is less industry or formal employment opportunity around them. The poor performance of Gauteng and KwaZulu-Natal colleges, despite the high level of industrial activity around these colleges, raises important concerns around the extent to which these colleges are engaging actively with their local economic environment.

In addition, students were asked to rate the support offered by the college staff towards optimising their experience in the college. While the colleges were rated fairly flat on all aspects of support, on the critical support feature of assistance in finding work, the colleges were all rated below average to poor. Yet the Gauteng colleges fared worst, particularly in assisting students in finding work, despite access to industries nearby the colleges. See Figure 3.2.5.

Therefore, students migrating to Gauteng in the hope of accessing better employment opportunities are unlikely to get support from the colleges in this regard. Considering the limitations on accessing networks when coming from a socio-economically disadvantaged environment, the colleges, particularly in Gauteng, do not appear to be contributing to enhancing access to those networks that could facilitate greater employment opportunities.

Figure 3.2.6 presents the perceptions of the particular strengths and weaknesses of FET colleges in Gauteng across different fields. As the graph suggests, Gauteng colleges appear to be better at linking students from service industries (business, hospitality and tourism) than those from engineering or IT. This indicates that they find it easier to access employers in these industries.

The practical application of skills within a simulated workshop environment is viewed as a critical component of the NCV curriculum. This has been regarded as an important shift from the NATED programmes, which focused solely on

Figure 3.2.4: The role of colleges in preparing students for the world of work, 2009

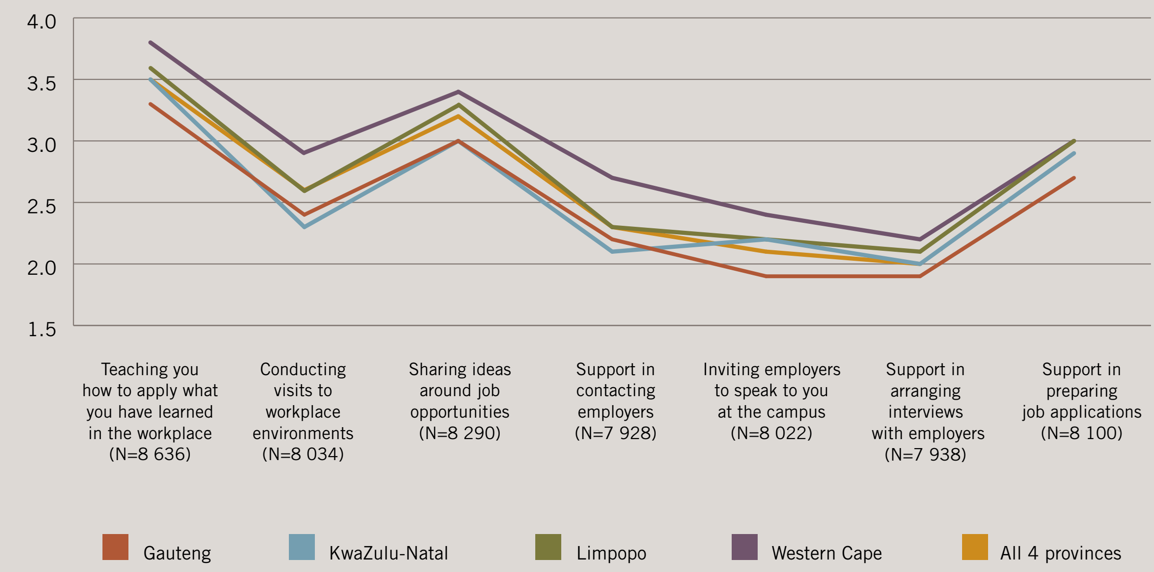


Figure 3.2.5: The quality of learner support offered by colleges, 2009

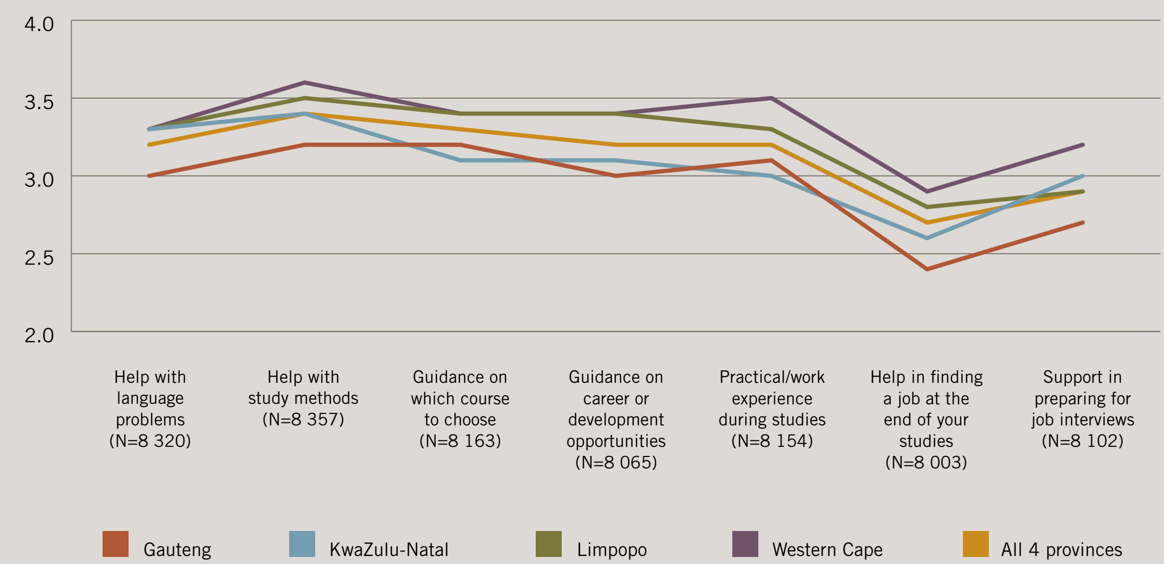
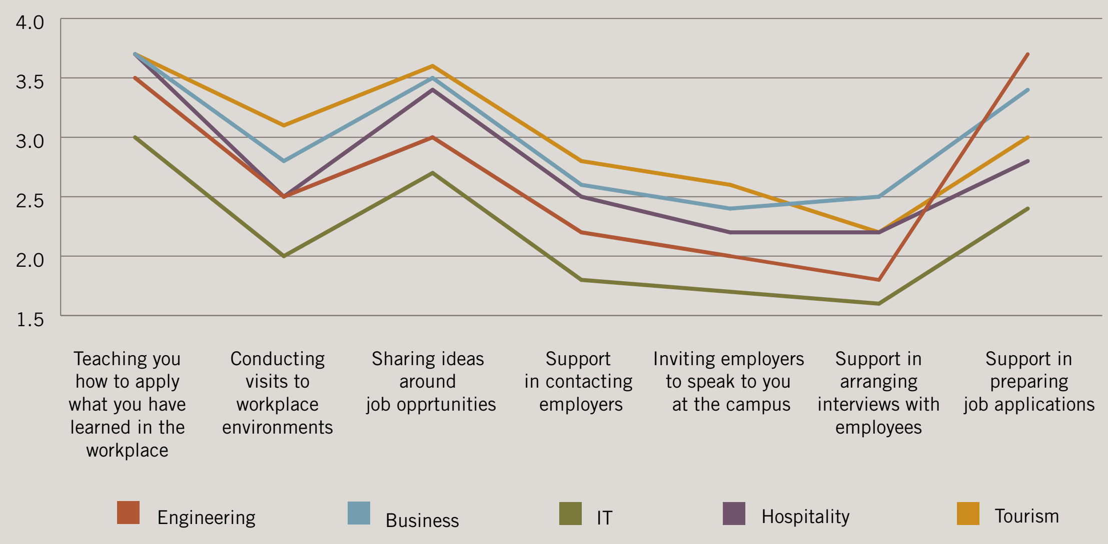


Figure 3.2.6: Role of Gauteng colleges in preparing learners for the world of work



theory and did not provide access to practical application. Colleges were granted R1.9 billion by the Treasury between 2005 and 2007 to upgrade their infrastructure and make it more conducive to high-quality practical training in line with industry standards. Despite this significant investment, colleges are reportedly still not succeeding in giving students sufficient access to practical workshops, as indicated in the responses reflected in Table 3.2.1. This has the potential to undermine the effectiveness of the qualification in preparing students for the workplace. As the table suggests, colleges

Table 3.2.1: Access to resources by province, 2009

Province	Access to practical workshops		Access to computers	
	Number of responses	*Average rating (1–5)*	*Number of responses*	*Average rating (1–5)*
Limpopo	3 692	3.2	3 779	3.4
Western Cape	1 120	3.5	1 121	3.8
Gauteng	2 944	3.1	3 059	3.5
KwaZulu-Natal	705	2.8	755	3.7
All four provinces	8 461	3.2	8 714	3.5

are more successful in creating access to IT infrastructure, particularly in Western Cape.

Access to workshops for engineering students averaged around 3.42 (on a scale of 1–5, 1 being poor and 5 being excellent), with Engineering and Related Design being particularly problematic in this regard. This may be due to the capital-intensive nature of engineering design and application tools. Despite the recapitalisation grant from the Treasury, colleges were not necessarily equipped to accommodate all learners in an engineering workshop, due to the complexity of the machinery and the number of students who can be taught in one class.

The extent to which students are prepared for the workplace is also determined to some extent by their access to *workplace experience* during the course of their studies. More than half of the respondents reported having no access to such experience (see Figure 3.2.7). Where they were able to access workplace experience, it was primarily as part of a learnership or apprenticeship. This form of delivery would inevitably enable access to the workplace for extended periods of time and would place learners at an advantage. This is particularly apparent in the Western Cape.

Learnerships and apprenticeships would most probably be initiated from outside the colleges. As such, the college would equip the learner with theory, but contribute little to the workplace component. In only 10 per cent of cases

Figure 3.2.7: Type of work experience obtained during studies, 2009

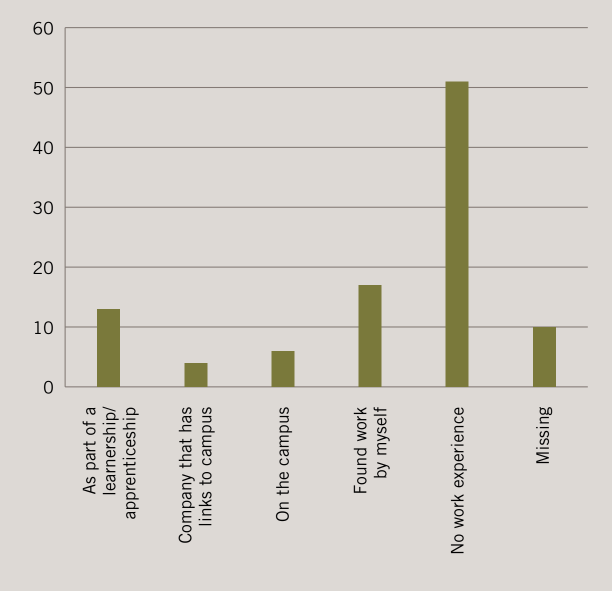
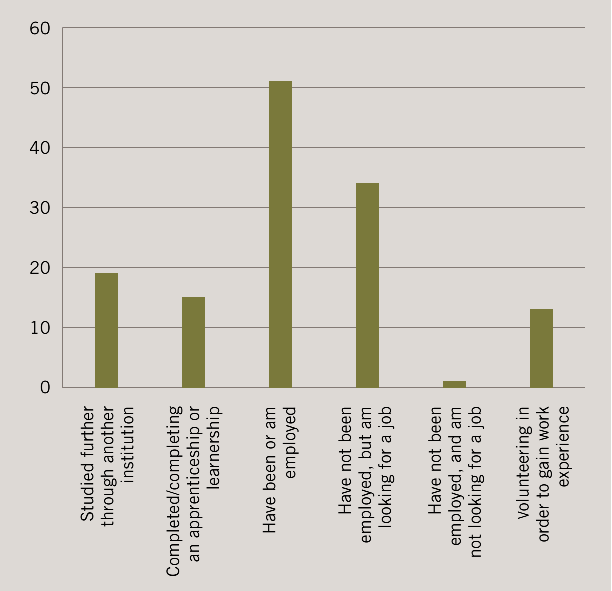


Figure 3.2.8: Employment status since 2003



did learners report getting access to the workplace through college links. In the Western Cape and KwaZulu-Natal, students appeared to be taking greater initiative in finding workplace experience than in the other two provinces

The introduction of learnerships and the recent reintroduction of apprenticeships seem to have provided a route for entry into the workplace for FET college students, particularly those in technical trades. The increasing number of students who claim to have been part of a learnership or apprenticeship should place them in an advantageous position when completing their studies.

DO FET COLLEGE LEARNERS GET EMPLOYED?

In October 2009, a tracer study of the 2003 cohort of FET college learners was conducted. A total of 1 218 responses was received. Respondents were asked to report on what they had done since leaving the FET college in which they were enrolled in 2003. Just over half of the students reported that they had been employed and/or were still employed during the six-year period. See Figure 3.2.8.

One-third of respondents reported not having been in employment. While 34 per cent of respondents reported studying further after 2003 or completing a learnership or apprenticeship, only 37 per cent of the cohort went on to find employment.

There seemed to be no noticeable difference in employment between respondents who had studied business studies and those who had studied engineering, although, as of 2009, only 35 per cent of those still employed were employed in a position that was related to what they had studied.

While there was a general increase in earnings over the six-year period, more than half of the respondents who were employed were still earning below R4 000 per month five to six years after completing their college qualification (see Figure 3.2.9).

HOW DO COLLEGE GRADUATES FIND EMPLOYMENT?

When college learners were asked how they intended looking for jobs, the most common methods that both the 2003 and 2009 cohort intended using were advertising (both electronic and in published media) and employment agencies (see Figure 3.2.10).

When the tracer study was conducted, the 2003 cohort was asked which route they had used in finding their first job. Advertising and employment agencies were confirmed as the most important routes to finding their first job. Personal contacts and family relations accounted for 35% of the responses, suggesting they play a more important role than the students anticipated. See Figure 3.2.11.

As the data in Figure 3.2.11 clearly indicate, colleges are

Figure 3.2.9: Changes in income from first to current job

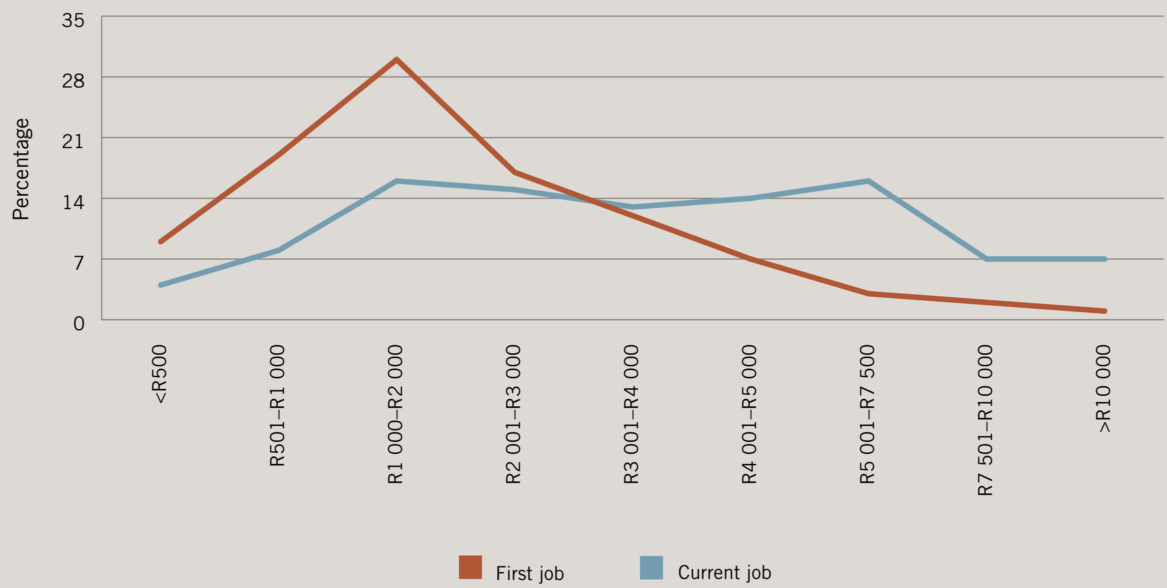


Figure 3.2.10: Routes to finding employment, 2003 and 2009

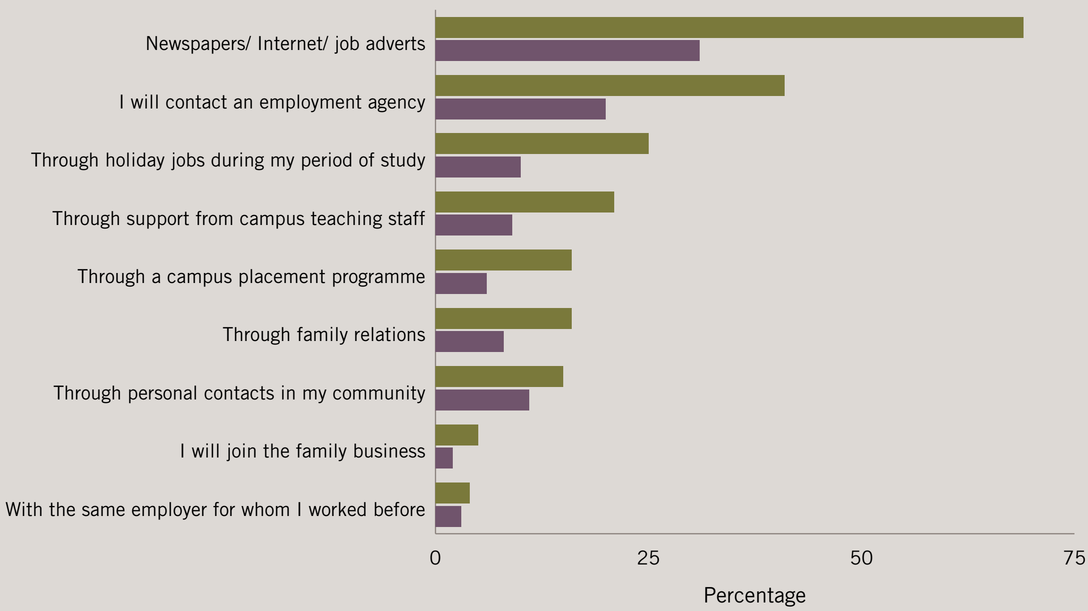
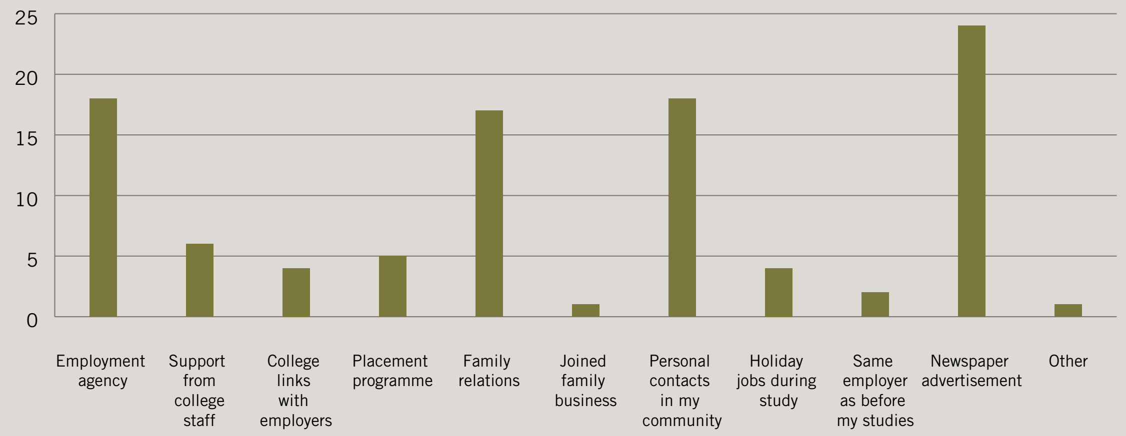


Figure 3.2.11: How candidates found their first job



playing a very limited role in providing access to employment opportunities. With the exception of those who were able to find employment through traditional routes, many learners were reliant on personal networks in finding employment.

Similarly, employment agencies and advertising continue to play a prominent role in finding a subsequent job (up to 62 per cent of respondents reported using these routes in finding their second job), while personal contacts appear to have become more important than family relations (see Figure 3.2.12). Only in very few cases did the respondents find their second job within the company in which they had been working.

As indicated in Figure 3.2.13, employment agencies seem to be the most effective source in Gauteng, while newspaper advertisements feature strongly in Limpopo. Considering the high concentration of industry in Gauteng, it is understandable that employment agencies would be more active in this province, while youth in Limpopo would have less access to such services and, therefore, be more reliant on newspaper and Internet advertisements to find jobs.

Therefore, while advertising and employment agencies are the routes of choice to finding employment, personal contacts and family relationships play an equally important role.

WHICH FACTORS CONTRIBUTE TO EMPLOYABILITY?

In order to understand the key factors that impact on employability, two sets of variables were considered when analysing the tracer study data. The first of these was a set of background variables, such as gender, field of study, province where the respondent studied and highest school qualification. The second related more directly to the routes that were followed in the search for employment.

Gender

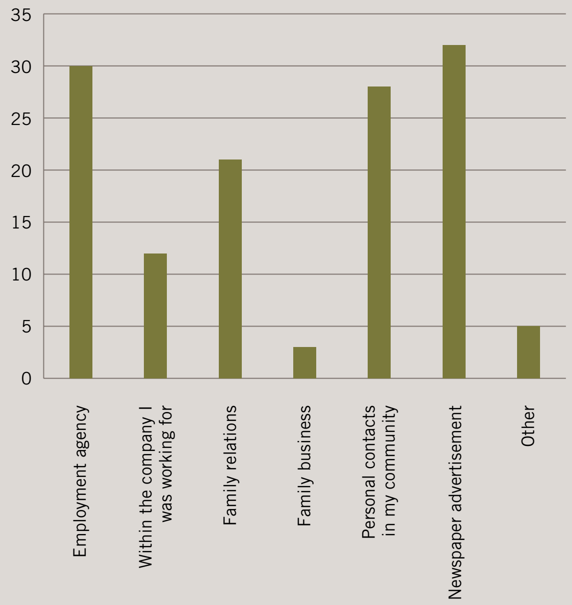
Males are twice as likely to be employed than are their female counterparts. It is probable that this is linked to the particular gender profile of the different fields of study. The enrolment trends in colleges are such that the majority of learners in engineering are male, while the majority of learners in business programmes are female. As engineering provides potential entry to trades, it is likely that this field of study will have more currency in the labour market than business programmes, which are more generic in nature. This places male learners at an advantage over female learners.

Geographical mobility

Considering the high level of migration from rural to urban areas, the study was interested in analysing whether this geographical mobility has enhanced employment prospects.

The analysis suggests that learners in Gauteng, KwaZulu-Natal and the Western Cape had a significantly higher chance of finding employment than did learners from Limpopo. In addition, when controlling for a range of other factors, those who did not move between provinces had a 61 per cent higher chance of being employed than did those respondents

Figure 3.2.12: How candidates found their second job



who moved from their home province. This latter finding suggests that moving to a major urban area does not significantly increase one's chances of finding employment.

Work experience

Those who had some work experience from college had an 82 per cent better chance of having a job appropriate to qualifications than did those who had no work experience from college.

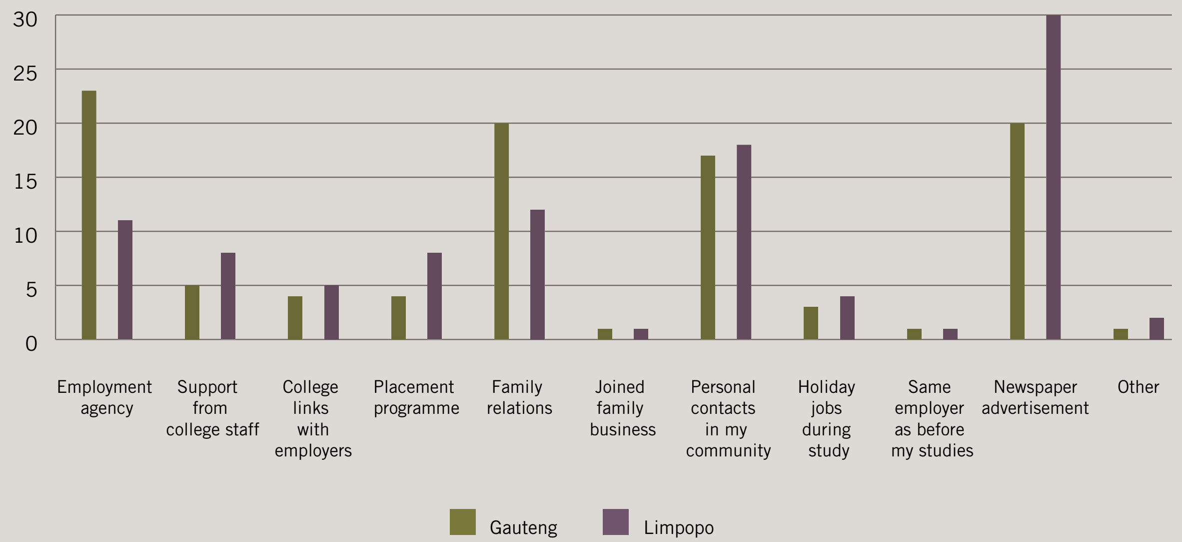
As salaries increase, so do the odds of having an appropriate job. Respondents who earned R3 000–R5 000 were twice more likely to have a job appropriate to their qualifications than were those earning less than R3 000. Respondents earning R5 000 and above were three times more likely to have a job appropriate to their qualifications.

Route to finding a job

The route taken to finding a job did not emerge as a significant factor in finding appropriate employment when controlling for the other variables. Nevertheless, finding employment in an appropriate job is contingent on two key elements: *employment agencies* and *support from college staff*.

Of the four primary routes to finding employment (employment agencies, newspaper adverts, personal contacts and family relations) only employment agencies were able

Figure 3.2.13: How candidates found their first job, Limpopo versus Gauteng



to achieve the necessary match to appropriate employment. Employment through college teaching staff was not reported to be a prominent means of finding employment. However, the analysis suggests that if this route were enhanced, it would add value to improving employability.

When controlling for other variables, finding a first job through family relations or personal contacts reduces the odds of being in full-time employment (as opposed to part-time employment) by 45 per cent and 50 per cent respectively, compared to those who do not use these resources.

Therefore, family relations and personal contacts feature more prominently as routes to part-time rather than full-time employment, which supports the hypothesis that the networks provided within one's immediate environment, where that environment is relatively deprived, are not effective in accessing meaningful employment.

WHAT DO THESE FINDINGS TELL US ABOUT THE FET SECTOR?

The data illustrate two points. They underscore the fact that vocational education and training is a highly complex arena, requiring a sophisticated understanding of both the educational and labour market factors that impact on its effectiveness and quality. The data also highlight the challenge of supporting non-linear youth transitions, the mobility of youth both geographically and within the labour market, and the scope of challenges that youth face in terms of making choices and accessing resources, particularly in a context of high levels of inequality.

The key question in this context is what it takes to achieve employability, and what the role of colleges is in this regard. The possible answers that emerge from the data are considered below.

Helping young people make effective choices

The effectiveness of the FET colleges will be determined, in the first place, by ensuring that learners are enrolled suitably into programmes that meet both their aspirations and aptitude. A fundamental concern from industry and the broader education and training community is that the colleges have not been effective in conducting appropriate recruitment and selection, and that this has contributed to some extent to poor performance, particularly in the NCV.

A key challenge for young people is the availability of resources to assist them in making choices. In the context of social inequality, limited access to information and a sense of disempowerment restricts the capacity of families to support such choices in a strategic manner. School teachers appear to play some role in this regard, but their understanding of the function of colleges is invariably fairly limited.

The survey results suggest the need for more effective career guidance and support in schools. However, the colleges can play a critical role in supporting young people to make more effective career and learning choices, and to ensure that the programmes they choose are suited to their needs.

Supporting workplace access

A key criticism of FET colleges has been that they have not been able to engage proactively with the private sector in facilitating access to workplaces. This could be ascribed to the fact that many college lecturers have had minimal exposure to industry and, therefore, struggle to make this link. In a recent study of FET college lecturers, it was found that only 22 per cent of engineering lecturers have had access to workplaces in the past four years (NBI 2010). It is likely that only those lecturers who were or are artisans (as many as 51 per cent) and came from industry would have the capacity to engage most effectively with industry. However, the limited recent exposure of these lecturers would probably restrict this engagement.

A significant challenge, therefore, is to ensure that lecturers from colleges can access workplaces to gain up-to-date exposure, which, in turn, would allow them to develop the appropriate relationships that are needed to establish links to facilitate access for learners. The importance of this is reflected in the data, which indicate a *significant relationship between college teaching staff having links with industry and positive employment outcomes*. Although these links are currently limited, they do successfully result in employment that is related to what learners have studied.

However, a key obstacle to workplace access is the perception of employers that they need to guarantee employment for these learners. It needs to be emphasised that access to workplaces does not guarantee employment but provides a first foothold in the labour market. Gaining access to workplaces during the course of studies or after completion of studies for experiential/authentic learning has been demonstrated to significantly increase employability. The study shows that the chances of those with workplace experience finding employment increase by 82 per cent. Clearly, learnerships and apprenticeships provide the most effective routes into the workplace for authentic on-the-job training. However, exposure to workplaces, even for shorter periods of time, provides experience of the workplace and, thereby, enables learners to develop a track record, which enhances their chances of finding employment.

Expanding access to networks

There is an extensive research base that illustrates the importance of networks for creating access to employment, particularly in conditions of inequality. Such research indicates that, in the context of inequality, young people from disadvantaged backgrounds turn to immediate networks ('bonding' networks), such as family and personal contacts, to find employment. For young people from middle and upper class backgrounds, broader access to networks ('bridging' networks) is more likely. In South Africa, this inequality inevitably plays out in racial terms. Young Africans are less likely to have access to broader networks that can provide the opportunity of meaningful employment, while non-African learners may have easier access to these broader networks.

For the majority of learners in FET colleges, who invariably are African, access to broader networks is difficult. The data presented above illustrate four critical routes to employment – employment agencies, newspaper advertisements, personal contacts and family relations. Of these, only employment agencies (based mainly in urban areas) were able to clearly match learners to occupations that were related to what they had studied. Although many learners rely on personal contacts and family relations for access to employment, this does not necessarily enhance employability, as they struggle to find employment that places them on an appropriate career path.

While access to employment agencies is limited, due to their location in urban environments, and support from college teaching staff in creating links is minimal, the role of these conduits to employment is critical in the absence of available networks. Therefore, considering that these two avenues seem to be the most effective, it would seem advantageous to focus strongly on developing them further. Mechanisms would be required to enhance the role of employment agencies in placing young college leavers. At the same time, colleges need to play a more proactive role in creating links with employers.

Addressing the challenges of rural youth

The data illustrate high levels of migration by learners from rural and peri-urban areas to major urban areas for the purpose of study. These learners are inclined to remain in the urban areas to look for work once their studies are complete, which places substantial pressure on urban labour markets to absorb young people.

As it happens, the data support the obvious perception that more jobs are available in dense urban areas. However, although jobs are more readily available in these areas, a move to one of them does not necessarily improve the young person's chance of finding a job. Young people in less developed areas are caught in a double bind – staying where they are leaves them at a disadvantage, but their opportunities do not increase when they move to an urban area.

Therefore, it would seem that alternative strategies are needed for stimulating access to employment in the less urbanised environments. Colleges need to develop creative mechanisms for finding opportunities that would give students access to workplace environments, even if these are less formal and in different sectors to those available in denser urban areas. The focus here would more likely be on the development of sustainable livelihoods, such as small informal businesses that respond to community needs and contribute to income generation and local economic development.

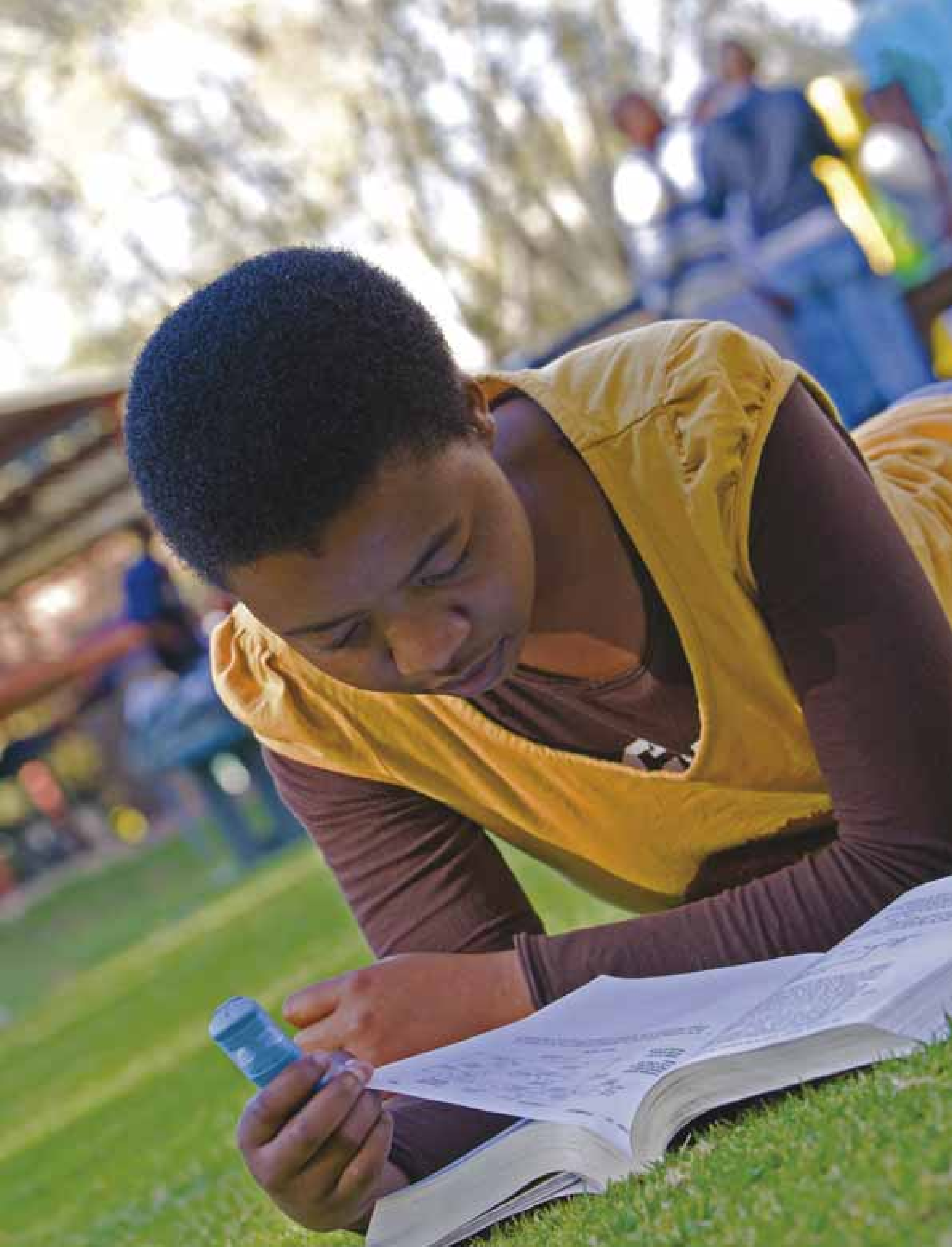
This requires colleges to expand their focus of delivery in order to support learners with the necessary commercial and other skills to establish small businesses, but also to provide post-training mentoring and support to ensure that these businesses are sustainable. There are many examples of local projects that have achieved this end. As such, colleges become the key conduits for entry into the labour market where formal industry is absent.

CONCLUSION

This article commenced with an overview of the broad context in which FET colleges operate and the potential role they play in relation to the skills pipeline. In addition to delivering a high-quality curriculum, colleges have the responsibility of preparing young people for employment. The data presented here indicate some of the key challenges that colleges face in realising this role, particularly those relating to the conditions needed to enable FET college graduates to access employment related to the field in which they have studied. In the absence of effective support mechanisms for young people, colleges need to act as intermediaries and to create the enabling conditions for employability. Only in this way can they realise their role in the post-school arena.

NOTES

1 The data presented here were produced by two separate studies. The first was undertaken in 2003, funded by JET Education Services and the National Business Initiative and managed by JET Education Services. The second was undertaken in 2009, funded through the Employment Promotion Programme within the Development Policy Research Unit at UCT, and managed by the National Business Initiative.The 2003 survey comprised 10 470 NATED college learners, while the 2009 survey comprised 9 885 NCV learners.



briefing

SKILLS DEVELOPMENT AND DISEMPOWERMENT: WORKPLACE SKILLS TRANSFER IN TRYING ECONOMIC TIMES

Salim Akoojee

INTRODUCTION

The scale of destruction left in the aftermath of the recent global and domestic recession has been immense. Besides the obvious, quantifiable decline in global trade, the more long-term social effects will be felt in labour markets around the world, since employment generally lags behind recovery. The International Labour Organisation (ILO) estimates that approximately 51 million people lost their jobs as a result of the global slowdown, while a further 46 million, in terms of World Bank calculations, have been pushed below the poverty line (in Bray & Varghese 2009). No country fully escaped its impact, but developing countries have been particularly vulnerable, due to declines in commodity prices and the resultant decrease in trade flows. The enormity of the crisis has prompted much comparison with the depression of 1929, which offers some alluring similarities (see, for instance, Verick & Islam's 2010 article entitled 'The great recession of 2008–2009: Causes, consequences and policy responses').

The impact of the crisis on the labour market, however, stretches beyond the number of workers that have been made redundant over the past three years. Its impact on education and skills development networks has also been severe. Increased demand and pressure on public education systems become particularly real as the economic downturn takes hold. On the one hand, the crisis displaces large numbers of workers, who attempt to respond to their joblessness by seeking further education; on the other hand, those already in the education system remain there longer, because, as employment prospects decline, they delay their entry into employment (Rogers 2008).

The role of education and training in the current circumstances, therefore, is particularly significant and requires proper attention and management. While the global recession may have haemorrhaged national economies, it has also provided the space for states to rethink the structure of their economies, their industrial policies, and the types of skills that are required. Clearly, the national economic crisis has provided an opportunity for states to re-interrogate more effectively the issue of inclusive economic development as they chart a new path for growth in terms of the types of economies that they choose. As such, the global misfortune also holds out opportunity to those willing to recognise and seize it.

Indeed, some states have chosen to make education integral to their 'recovery plans' (Bray & Varghese 2009), while others, such as the BRIC (Brazil, Russia, India and China) countries, have made education a critical component of semi-protected budgets (Douglass 2010). More importantly, national governments have gone out of their way to encourage firms to retain their staff and to stimulate skills development in an attempt to mitigate the worst social impacts of the crisis (OECD 2009). According to the Organisation for Economic Co-operation and Development (OECD), the investment in education and training, while it makes displaced workers less vulnerable, also importantly contributes to national economic restructuring as displaced workers find new job opportunities and support this new national restructuring (OECD 2009). Such measures, therefore, are aimed at sustainably protecting the most vulnerable from the full impact of economic meltdowns. There is, nevertheless, need for ever-vigilant social support, protection and extension where the education sector is threatened by declining national budgets (Barakat, Holler, Prettner & Schuster 2010). As such, the upside to the downturn is that it provides scope for countries to reposition themselves in the skills arena and offers an opportunity to engage more meaningfully with the equity and access imperatives in their economies. One of the key challenges in circumstances like these, therefore, is to capitalise on the moment with a sustainable and integrated response.

The methodology of this contribution is underpinned by two exclusive processes at firm level: firstly, a quantitative survey of manufacturing companies undertaken in 2009 and, secondly, a qualitative survey of 32 key individuals involved in the manufacturing sector, who were asked to report on the effects of the crisis on skills acquisition.

This article explores the impact of the crisis at national and firm-level. It begins with an overview of the methodologies used to obtain company-level data and then proceeds to examine the South African national economic and recessionary context, and the role of skills in the country's response. It proceeds with an elaboration of the key results of the survey. It is contended that the responses at both national and firm level appear out of sync with longer-term developmental goals. In particular, it suggests

While the global recession may have haemorrhaged national economies, it has also provided the space for states to rethink the structure of their economies, their industrial policies, and the types of skills that are required.

that the economic downturn is likely to further entrench the racial distinctions that have characterised the South African labour market, and will undermine identified developmental equity and transformational imperatives. A golden opportunity, therefore, is lost for longer-term equity gains.

METHODOLOGICAL CONSIDERATIONS

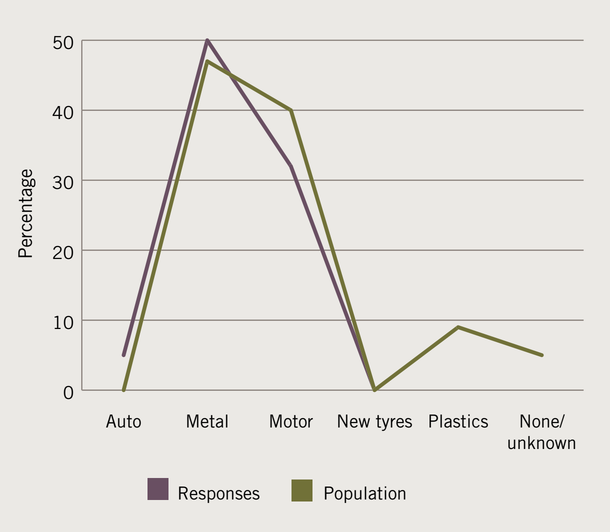
In an attempt to determine the impact of the economic downturn on companies in the manufacturing sector, this research was underpinned by two broad processes, a quantitative survey attempting to identify the broad features of training and recruitment in companies during the economic downturn, and a qualitative component with key industry stakeholders.

The qualitative methodology was undertaken in four distinct phases. A literature review preceded the 32 key stakeholder interviews at relevant firms, institutions and organisations. This was followed by an independent econometric analysis of past trends and future projections by key economic variables of seven sectors matched to a sector education and training authority (SETA) linked to the manufacturing sector.

The quantitative methodology was intended to aid an understanding of training and recruitment practices as a component of a broader employability study. Undertaken during the period of the economic downturn, in the period September 2009–February 2010, the survey attempted to determine key features of skills acquisition during the previous two years. The 308 responses received from a database of almost 3 900 companies broadly reflected the profile of the companies represented in the total sample, as depicted in Figure 3.3.1.

A web survey was used as the survey method. It was assumed to hold the benefit of convenience and to maximise response rates, reduce data input errors and enable efficient analysis in a paperless environment.

Figure 3.3.1: Survey sample versus responses



Source: SETA (2010).

SOUTH AFRICAN SKILLS IN RECESSION: THE NATIONAL CONTEXT

Skills and national development

Skills development has been intricately linked with the national development challenge in South Africa. The twin challenges of poverty and inequality are underscored by recession. The issue of skills development, which has been described as 'seriously dysfunctional', has been identified as a significant constraint on responding to key developmental considerations (McGrath & Akoojee 2007). Key to this dysfunctionality is the disconnection between the skills demand and supply. In order to meet a projected demand of 30 000 artisans over the period 2007–2010, for instance, the country needed to increase its supply by about 12 500 per year over the period. Clearly, South Africa's apartheid-driven industrial development path had led to an intense polarisation between high and low skills elements, with a serious underdevelopment of the intermediate skills segment essential to successful industrialisation and economic competitiveness (McGrath 2004).

With concerns about skills shortages still dominating the national discourse (see, for instance, DHET 2010), the overall consideration of the state appears to focus on those 2.8 million youth not in education, training or employment (Cloete 2009). Various policy proposals have been identified to enable a synergy between the industrial trajectory and the skills development challenges. Thus, the Department of Trade and Industry's National Industrial Policy Framework (DTI 2009) and the latest Human Resource Development Strategy (RSA 2010) espouse the need for a human development perspective that includes a consideration of social development. It is indicated that the country needs to take account of historical challenges, including race, class and inequity, pointing out that the 'history of South Africa and the persistence of residual prejudices and inequalities compel us to always be vigilant of issues related to values, good citizenship and an explicit commitment to wider development objectives' (RSA 2010: 10). In addition, the Medium Term Strategic Framework, which articulates the national medium-term expenditure focus, identifies the need to 'train hundreds of thousands of artisans as needed by the economy as well as focused tertiary support' (The Presidency 2009). Indeed, skills development will become an important component in South Africa's future economic development, as suggested in the government's New Growth Path, which was released towards the end of 2010. The strategy aims to promote 'policy aimed at enhancing growth, employment creation and equity' (DED 2010), and is aimed principally at the creation of five million jobs over the next ten years. The latest developments suggest that a crucial component of the Growth Path is the intention to train 50 000 more engineers by 2014, and a further 50 000 more artisans by 2015 (DED 2010).

Unemployment in tough economic times

The consequences of the South African recession, and the lacklustre growth that followed in its wake, offer a mixed picture. Economic activity and sentiment related to the 2010

Table 3.3.1: Labour force indicators, pre-2008 and during the recession (2009) (percentages)

		2008 2nd quarter	2009 2nd quarter	Difference	Comment
Unemployment (overall)	Broad unemployment	27.1	31.2*	4.1	Increase in absolute numbers of unemployed from 5.12 million in 2008 to 5.58 in 2009. Also increase in discouraged workers from 1.1 million in 2008 to 1.7 in 2009**
	Narrow unemployment	22.7	24.5*	1.8	Job losses: Manufacturing (149 800), Retail (223 300), Agriculture, forestry & fishing (101 100)
Unemployment (broad) by race	African	31.9	34.8	2.9	Young African males with some education hardest hit
	Coloured	21.1	21.2	0.1	
	Indian	13.1	13.8	0.7	
	White	4.9	5.2	0.3	
Unemployment by gender	Male	22.9	26.5	3.6	
	Female	31.9	32.7	0.8	
Unemployment by age	Youth unemployment (wide)	50.3	57.3*	7.0	Firms retrenching younger/ inexperienced workers, not hiring new job-seekers
	Youth unemployment (narrow)	44.5	48.4*	3.9	
	Age 15–24 (overall)	49.9	56.0	6.1	95% African Increased by 377 000
	Age 25–34 (overall)	30.7	33.0	2.3	Youth unemployment a serious challenge
Unemployment by education	Completed matric	26.9	29.9	3.0	
	Grade 9–11	35.4	37.3	1.9	

Source: Stats SA (Q2 2008 & Q2 2009), includes discouraged workers; *Stats SA (Q3 2009); **ILO (2010).

FIFA Soccer World Cup provided some buffering against its full onslaught, while reduced lending, which stemmed from the delayed introduction of the National Credit Act 34 of 2005, also proved to be valuable in this regard. Yet, the presence of these factors elicited a false sense of confidence, which impeded the development of a comprehensive response to the crisis. As Hein Marais has argued, 'until well into 2009...South Africa's political and business elites seemed to languish in a state of denial and were broadcasting predictions of another year of positive economic growth, even as credit markets around the world asphyxiated and global demand dissolved' (Marais 2010). The country has been particularly affected by the sharp fall in demand for its export products, the drop in prices of key export commodities, and reduced foreign investment (Chitiga, Mabungu & Maissonnave 2010). Between 1995 and 2003 the post-apartheid economy averaged 3.3 per cent growth, and peaked at a particularly impressive 5.2 per cent in 2006/07. This had changed quite drastically by the second quarter of 2009, when the country entered its first recession in 17 years. Since the last quarter of 2008, the declining demand for mining products, with its negative impact on manufacturing (which accounted for 16 per cent of GDP and 14 per cent of the workforce), confirmed signs of a faltering economy. Macroeconomic forecasts were revised downwards as a result of these negative incomes, as were projections for possible tax revenues, investment and, importantly, employment. The social impacts were significant. By the third quarter of 2009, cumulative job losses in South Africa amounted to more than a million (DPRU 2009; ILO 2010).

Table 3.3.1 shows that, in addition to increased overall unemployment in 2008–2009, the period was characterised by the most serious impacts of the economic crisis. It saw an overall broad unemployment increase of 4.1 per cent (from 27.1 per cent to 31.2 per cent) and a narrow proportional difference of 1.8 per cent (from 22.7 per cent to 24.5 per cent).[1]

The increase has distinctive characteristics in terms of race, gender, age and educational level. African unemployment increased markedly, by 2.9 per cent, as compared to other racial groups (Indians the highest at 0.7 per cent). Males (3.6 per cent) appear to have fared worse than females (0.8 per cent), and the impact on youth was particularly negative, with unemployment at 57.3 per cent in 2009, a difference of 7 percentage points from the year before, with significant increases in the 15–24 age group (a difference of 6.1 per cent) and the 25–34 age group (a difference of 2.3 per cent). This has particular significance for the public education system, which is likely to experience an increase in applications for enrolment in the future.

Skills and occupational profile of labour force

One of the major consequences of the recession and continued slow growth has been the continued skewed racial profile of the South African labour market. Table 3.3.2 reflects a snapshot of occupational level by race. The table is

Table 3.3.2: Occupational skills profile of manufacturing employment by race, 2008–2010 (percentages)[2]

	African		Coloured		Indian		White		Total
	2008	2010	2008	2010	2008	2010	2008	2010	
Managers	14	15.6	9.7	7.2	12.5	9.1	63.8	68.2	100
Professionals	25.7	44.8	16.1	9	10.9	10.6	47.3	35.6	100
Technicians	39.7	48.4	22.2	19.9	8	5.9	30.1	25.8	100
Clerks	39.5	38.5	22.7	20.3	11.7	10.8	26	30.4	100
Service & sales	64.3	56.4	9.5	18.1	3.7	6.4	22.5	19	100
Crafts	68.8	68.3	17.1	17.5	3.4	3.3	10.8	10.8	100
Operators	75.9	76.5	15.5	17.5	6.6	4.1	1.9	1.9	100
Elementary	74	77.5	18.1	17.2	2.5	5.1	5.4	2.2	100
Total	60.6	62	16.9	16.7	6.1	5.2	16.4	16.1	100
Total ('000s)	1 162	1026	324	277	117	87	314	267	1 917

Source: Stats SA (2008, 2010).

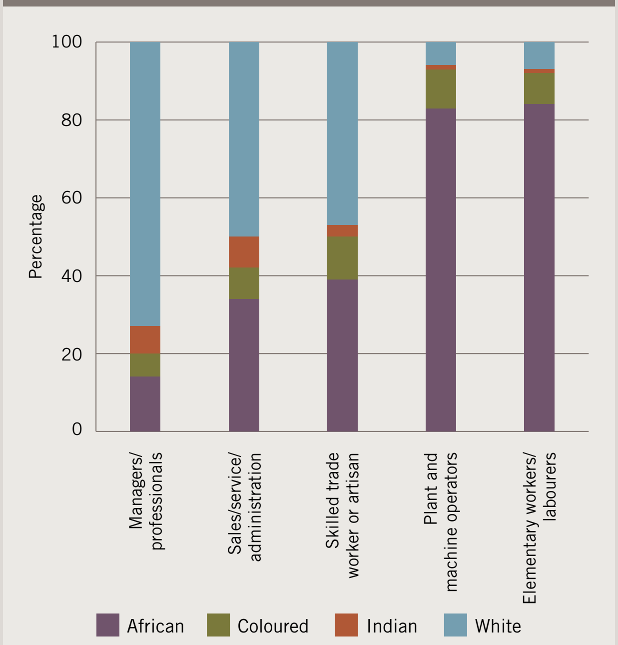
less useful as a trend analysis than it is as a broad illustrative reflection of the occupational profile of the sector by race, which, in the absence of alternative data sources, must suggest accuracy in broad features of the sector.

The table suggests that white males continue to dominate the top echelons of the workplace, a fact that has been reinforced by information gathered in the SETA survey.

Figure 3.3.2 shows the racialised nature of the labour force, with the predominance of whites in the upper levels of organisations (73 per cent in the managerial/professional category and 50 per cent in sales and service). Just under half (47 per cent) of those in the skilled component were white, suggesting a lack of black skills or a lack of employment prospects for this group.

Clearly, this picture supports the view that white males tend to dominate the top levels of the workplace; are benefiting from recruitment and promotions; and that they gain most from training and development opportunities (Nkeli 2010). It reinforces the stance of the Commission for Employment Equity that whites are, 'continuing to be recruited and promoted in the private sector and are likely to continue to benefit from training and development opportunities' (in Nkeli 2010). Thus, despite the range of equity and skills development legislation (RSA 1998a, 1998b), there is still considerable inequality and, thus, an urgent need for real transformation.

Figure 3.3.2: Demographic profile of labour force by race



Source: SETA (2010).

While little evidence exists of the impact of the recession on this profile, recruitment patterns illustrated in the quantitative survey suggests that the trend is not likely to be reversed.

Government response: The Training Layoff Scheme

The government's official response to the recession, contained in a tripartite agreement between government, business and labour, was formulated in February 2009 and provided the basis for dealing with the crisis. As a social partnership response, there was consensus around five core principles: financing growth and investment; addressing distressed sectors; avoiding retrenchment; managing retrenchment; and addressing the social impact of the recession. Significant infrastructural funding was committed to the mitigation of the more serious impacts of the crisis. Infrastructural spending is scheduled to reach R787 billion over the period 2009–2011 (already committed as a result of the infrastructural requirements of the FIFA World Cup). Another R390 billion in capital spending by state-owned enterprises signals a commitment to engage with the most dire economic consequences of the downturn (Treasury 2009). In addition, the consequent social spending commitment reflects a degree of intent to deal directly with the impacts of the crisis. A budget of R24.8 billion was allocated to health and education, and another R4.1 billion towards infrastructure for this purpose, which means that serious attention was given to the social impacts of the crisis. Importantly, education spending is scheduled to increase over the next few years, from R127 billion in 2008/9 to R169.7 billion in 2011/2, an annualised increase of 10 per cent in the period 2008–2012 (Treasury 2009).

The core skills development component of this agreement was contained in the attempt to 'avoid' and 'manage' retrenchment by assisting companies to deal responsibly with retrenchments that appeared inevitable. The Training Layoff Scheme was designed to prevent large-scale retrenchments in an effort to 'keep employees working during the economic downturn and reskill them as an investment for the future economic recovery' (NEDLAC 2009: 17). Finance for this initiative would come from the national skills levy system (R1.2 billion), the National Skills Fund (R1.2 billion) and Sector Education and Training Authorities (SETAs) (R 500 million).

The impact of this initiative was less than effective, as some analysts have outlined. Only R400 million was spent by October 2010 to assist 6 514 workers, which left almost

2.5 million of the allocated amount unspent (Hirsh 2010). Support to companies was based on the degree to which they would be forced to retrench staff were they not to receive external support. Thus, companies had to show that workers would have to be retrenched in the absence of a retention incentive. Clearly, while this job-saving initiative was based on sound principles to reduce joblessness, it left the rationale for company-level job-shedding intact, almost as an automatic response to economic distress. While the intended benefit of the strategy was to cushion the impact of the recession on those vulnerable workers in the lower echelons of the organisation, whether this was indeed a strategy worthy of supporting, and whether it would bring in the necessary cost-saving benefit to sustain them in times of economic hardship, was not questioned and needed no justification. By its design, therefore, the need to prove job-shedding at the lower echelons, as opposed to other cost-saving measures, was not recognised. Thus, the composition of the upper levels of organisational structure largely remained intact and, as a result, the opportunity for company-level transformation was forfeited. The attempt to respond to the economics of the crisis, therefore, failed to respond to the racially skewed structure of corporations.

Thus, while recipients from the lower echelons of the organisation were invariably black, government support left the white upper echelons of the business intact. The government effectively provided support to businesses that were, in many instances, likely to have a skewed workforce profile split on a racial basis, and a golden opportunity was lost to apply a transformative agenda to enable workplace equity in the private sector.

COMPANY SURVEYS: DISCUSSION AND FINDINGS

The qualitative interviews showed that the impact of the recession at firm level cannot be separated from the challenges faced by the economic sector to which the firm belongs. These include: the impact of the National Credit Act; currency volatility; increasing customer demands; rapid global advances in quality-related production technologies; high administration and logistics costs; import parity pricing of local raw materials; perceived low labour productivity; the proliferation of both legal and illegal importation; and complex and unstable local social and political factors. It was considered that the impact of these features on demand and profitability has been emphasised during the economic slump.

Interviews with company-level executives revealed that smaller, locally owned companies with a predominant export

A significant industry consensus emerged that the government showed a distinct lack of leadership around the crisis, and the bureaucracy that resulted from this produced a complex, cumbersome and restrictive process.

orientation, which were more likely to have a narrower customer base or product range, were more prone to the harshest effects of the recession. In general, respondents reaffirmed the strategy of workforce downsizing as an essential part of fixed-cost reduction drives. Other cost-saving mechanisms included: shift consolidation and short-time production and employment mechanisms; ending labour brokers' contracts; hire and recruitment freezes; and offering voluntary severance packages. Formal retrenchments were considered a last resort by most respondents. Training and support, however, were necessary to reskill those who left as a result of other downsizing strategies. A significant industry consensus emerged that the government showed a distinct lack of leadership around the crisis, and the bureaucracy that resulted from this produced a complex, cumbersome and restrictive process. Overall, industry-level opinion was that crisis support from all quarters was 'too little too late'.

Respondents reported that the recession exacerbated the problems that already existed, and contributed to lower labour productivity. This was considered to be the result of, *inter alia*, a poor-quality and inadequately articulated public education system, which exacerbated the scarcity of skilled artisans and resulted in significant skills shortages. Importantly, industry saw the 'highly unionised nature of the labour force' and the 'political forces driving transformation', such as equity and redress, as being important constraints to sustainability in harsh economic times. Thus, industry-level bias for a capital-intensive rather than labour-intensive growth path appeared to be endemic. The feasibility of resolving key developmental blockages at company level is muted. Not unsurprisingly, therefore, the commitment to training and skills development was seen as important only if it led to tangible outcomes, and, in recessionary times, these were less obvious and, consequently, downplayed.

The quantitative survey provided important data about the nature of skills supply in times of recession, which reinforced the qualitative data. The recession has had little positive impact on the nature and quantity of skills supply, as Table 3.3.3 shows.

Table 3.3.3: Company responses to impact of recession on key skills development categories – supply, demand and training spend (percentages)

	To some/ large extent	Not at all really	Total
Supply of skilled artisan/trade workers	43	57	100
Demand for skilled artisan/trade workers	60	40	100
Training spend in the organisation	59	41	100

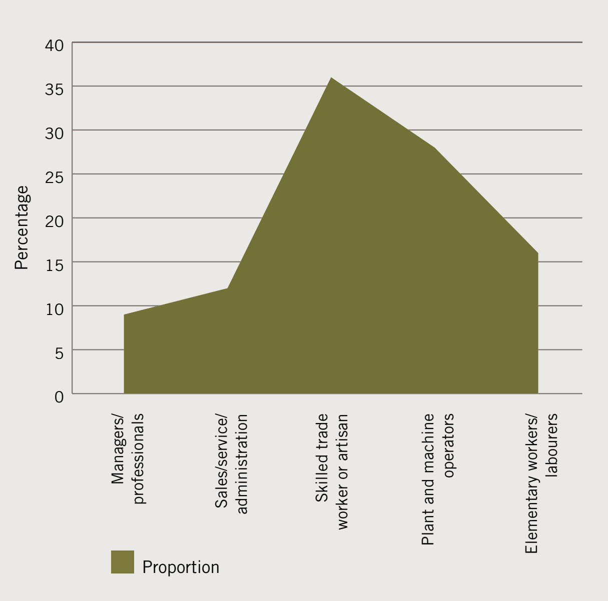
Source: SETA (2010).

Importantly, the negative impact on training spend in companies appears to be increasingly dire, with 60 per cent of companies indicating that the recession has had a negative impact on labour demand in the organisation. The recession has deepened existing challenges underpinned by shortages. Not surprisingly, it also has had a considerably negative impact on the training budget, with 59 per cent of companies indicating that training spend has declined to a significant extent. As anticipated, the recession's impact on South African companies has been moderate, but not insignificant. While the recession has had little impact on skills supply, indicating that to some extent the skills shortage is still in place, it has impacted on demand, which has declined.

While business expansion was muted, there was a sense amongst respondents that some recruitment was still being undertaken (see Figure 3.3.3). Most companies reported recruitment in the skilled components of the organisation. More than a third of companies surveyed (36 per cent) recruited at the 'skilled worker' or 'artisan' category, followed by the 'plant and machine operator' level (28 per cent), but few companies (16 per cent) recruited at the 'elementary worker' level. Very few firms recruited at the higher echelons of management (9 per cent) and sales and service personnel (12 per cent), suggesting that the possibility for change in the upper structure is limited.

Recruitment in a recession is distinguished by its propensity for skilled in-sourcing, ensuring that those hired have some degree of skills to be able to 'hit the ground running'. In several quarters, this practice is referred to as poaching. Table 3.3.4 shows that a significant proportion of incumbents are in-sourced from other companies (76 per cent) as opposed to newly trained graduates from colleges and universities (24 per cent), which indicates a tendency to reduce the 'burden' of training in hard times.

Figure 3.3.3: Recruitment by level



Source: SETA (2010).

Table 3.3.4: Company recruitment practices – proportion of those recruited from other companies, institutions and those trained internally, 2008/09 (percentages)

Category	Experienced vs new recruits	Higher education vs non-higher education
Other full-time staff (experienced personnel from other companies)	76	
Newly graduated students from universities (universities of technology)	24	54
Completed apprenticeships served with company where permanent employment obtained		22
Newly graduated students from FET colleges		16
Completed learnerships served with company where permanent employment obtained		8

Source: SETA (2010).

Amongst those recruited from institutions, more than half (54 per cent) were from the university sector. Colleges comprise a small proportion (16 per cent), suggesting a tendency to recruit a higher-level workforce that is less likely to require additional training. College recruitment was less than in-house training – apprenticeships (22 per cent) and learnerships (8 per cent) – indicating a preference for those familiar with the firm-level experience.

The recruitment trends also display a distinct lack of workforce transformation. Table 3.3.5 shows the racialised structure of recruitment practice, with 'whites' recruited at the upper echelons of the organisation (manager, sales and skilled-worker levels), and 'blacks' at the lower 'elementary' and 'plant operator' levels. Thus, the possibilities for demographic transformation are muted in recessionary times.

Table 3.3.5: Recruitment by occupation and race (percentages)

	African	Coloured	Indian	White	Total
Manager/ professional	33	5	7	55	100
Sales/service/ administration/ secretarial	19	8	8	65	100
Skilled artisan/ trade worker	27	7	6	60	100
Plant and machine operator	60	12	6	23	100
Elementary worker/labourer	85	5	1	9	100

Source: SETA (2010).

CONCLUSION

The recent recession and current sluggish economic conditions present South Africa with the opportunity to lay the foundations for the realisation of more equitable outcomes as envisaged in the country's equity legislation. Using quantitative information obtained from a survey of companies, complemented by a parallel qualitative study identifying the impact of the economic crisis on private

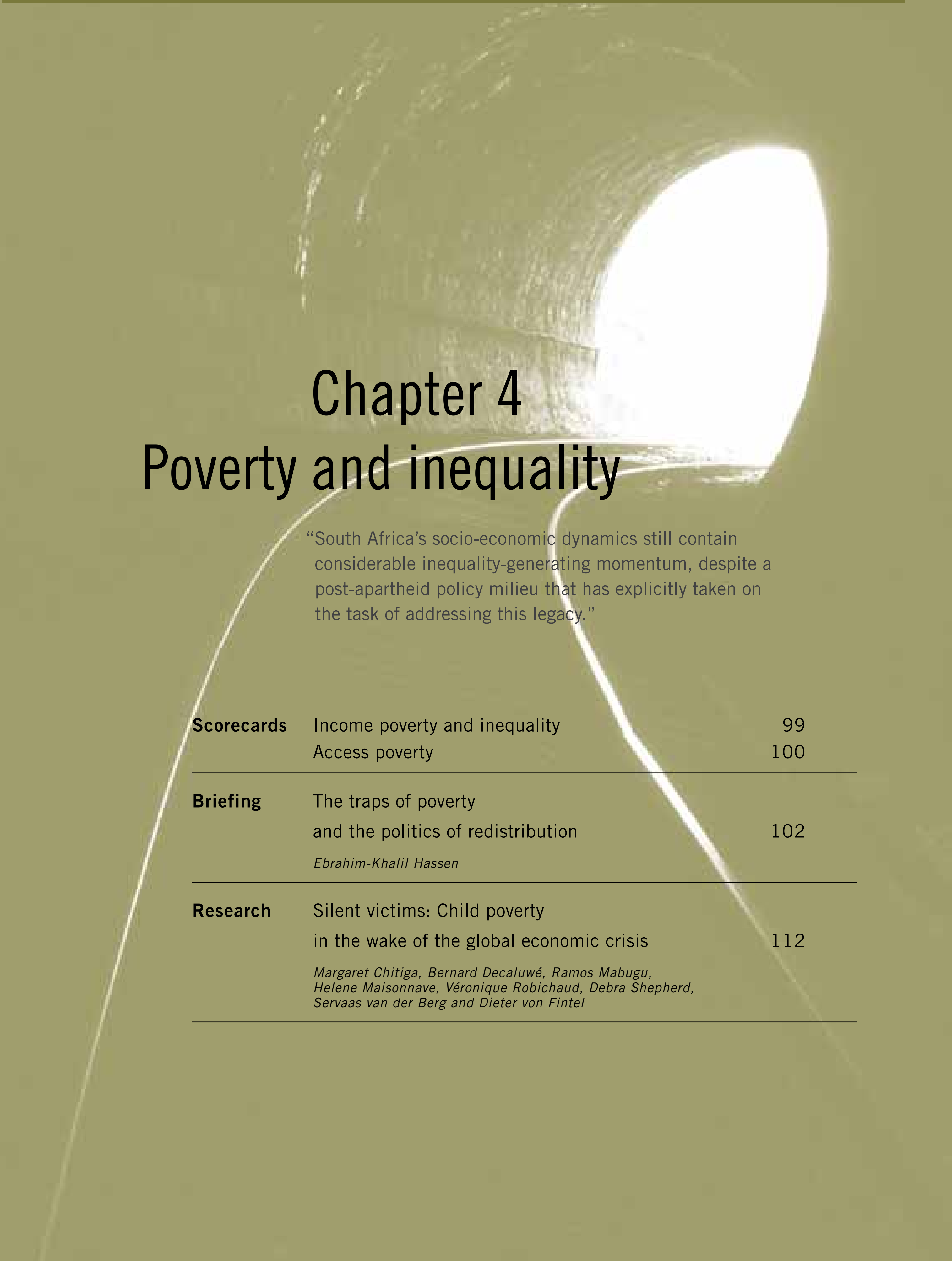
There is a sense that recruitment practices, where they do exist, are far less likely to lead to equitable outcomes.

companies, the results show that while the national responses to the recession have been directed at immediate business prerogatives, they have not been based on the transformational criteria that are considered to be a key national development prerogative. The state's assistance package was aimed at stimulating the economy by means of an expanded approach to stall retrenchments of the most vulnerable, in anticipation of the much-vaunted lift off. To date, it has largely failed in this regard, with many of the key challenges remaining intact. In particular, current trends suggest a negative impact on workplace equity. There is a sense that recruitment practices, where they do exist, are far less likely to lead to equitable outcomes. This is due largely to the fact that equity is sacrificed as a result of both the need to limit training costs and the inefficient appointment of experienced personnel. Indeed, as one respondent argued, the national response has been 'too little, too late', and, from a national development perspective, 'far too inadequate'. While the responses have been geared towards employment and poverty-reduction outcomes, the correction of inequalities has been neglected. The expectation by companies that the government support them in times of economic crisis, presents an important opportunity for the furtherance of the national skills development agenda. However, although government support could be employed usefully in this respect, the opportunity might well have been lost.

NOTES

1 'Broad' unemployment includes those 'discouraged', inactive workers who have not sought employment over the period under consideration.

2 Disaggregating manufacturing by occupation and race creates such small cells that the estimates are liable to be less than accurate for drawing a meaningful trend analysis. For example, the 2008 data have only 76 professionals in manufacturing (unweighted), with only 19 of them African. The 2010 data have 69 observations for professionals, of which 27 are African. Anything fewer than 100 observations is problematic; consequently, the conclusions that can be drawn are only illustrative.



Chapter 4
Poverty and inequality

"South Africa's socio-economic dynamics still contain considerable inequality-generating momentum, despite a post-apartheid policy milieu that has explicitly taken on the task of addressing this legacy."

overview

In the first contribution to the final chapter, **Ebrahim-Khalil Hassen** argues that present strategies to address poverty and inequality largely fail to address its entrenched nature. Policies that merely facilitate redistribution are not enough. Hassen suggests that without significant changes in power relations, inequality in South Africa is likely to remain high and resilient. To reverse present economic power relations and thereby reduce inequality, he argues for greater emphasis on widening economic participation through the introduction of measures into public policy that encourage asset-building. Hassen proposes four asset-based policies to widen the range of opportunities: employment guarantees; small business start-ups; savings accounts; and social security reforms. To date, these policies have been largely absent in South Africa's development discourse. Yet, in the context of a growing economy, supported by economic policies, these strategies potentially provide mechanisms for poor households to attain formal participation in the economy.

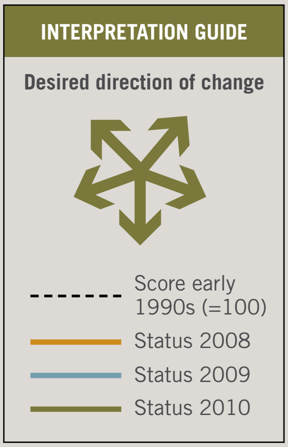
In the final contribution, **Margaret Chitiga and colleagues** assess the impact of the recent global economic crisis on child poverty. Since poverty amongst children has always been more acute than any other form of poverty in South Africa, the assumption could be made that this section of the population may have been the worst affected by the recent downturn. After tracing the channels through which the crisis was transmitted, and assessing the magnitude of its impact, the study demonstrates that the crisis has worsened household poverty directly through the reduction in employment and subsequent drops in household income. It did not, however, completely reverse the positive impact of Child Support Grants. In fact, the study shows that the effect would have been far more severe in the absence of these grants. Yet, it is evident that the economic crisis did have a significant impact on monetary poverty in South Africa, and could further affect child poverty in the future.

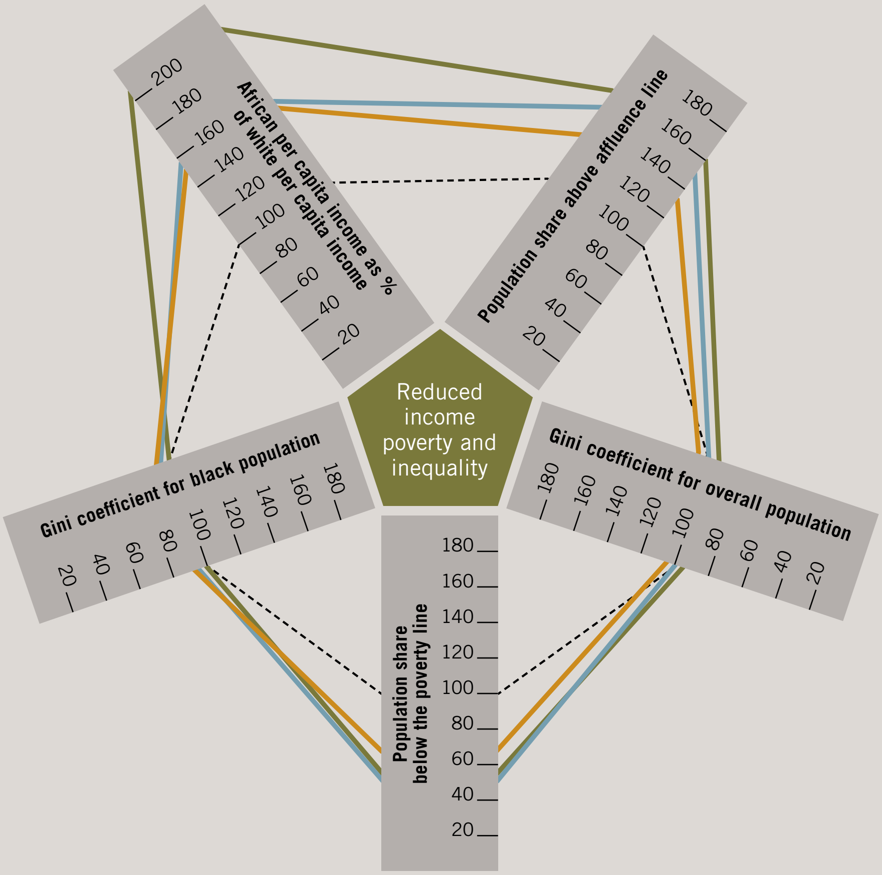
Income poverty and inequality scorecard

Transformation goal	Reduced income poverty and inequality					
Desired outcome	**Indicator**	**Status 1990–1994**	**Status 2008**	**Status 2009**	**Status 2010**	**Direction of change**
Reducing income poverty	Percentage of the population below the poverty line	50.3%	38.2% (2007)	33.9% (2008)	34.5% (2009)	↓
Creating wealth	Percentage of the population above an 'affluence' line	9.2%	12.2% (2007)	13.8% (2008)	14.7% (2009)	↑
Reducing inequality	Mean African per capita income as a percentage of mean white per capita income	10.2%	15.4%* (2007)	15.9% (2008)	20.5% (2009)	↑
	Gini coefficient for overall SA population	0.67	0.66 (2007)	0.67 (2008)	0.64 (2009)	↑
	Gini coefficient for black population	0.55	0.59 (2007)	0.60 (2008)	0.62 (2009)	↓

Source: Calculations by S van der Berg and D Yu using *All Media Products Survey* (AMPS) data, except for earnings of females, which are derived from the *Labour Force Survey*.
Notes: The poverty line is set at R3 000 per person per year in 2000 rands and the line of 'affluence' at R25 000. AMPS 2005 shows a sharp increase in total income in 2005 (to derive a conservative estimate, the actual income increase was adjusted downwards to be in line with growth according to the national accounts, before poverty and affluence rates were calculated).
* This large shift may be indicative of comparability problems in AMPS income data between 2006 and 2007.

The Income Poverty and Inequality Scorecard and Star provide a snapshot impression of changes in key indicators of poverty and inequality.



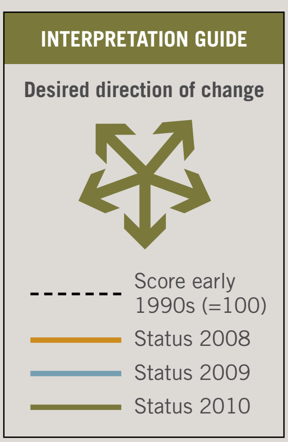


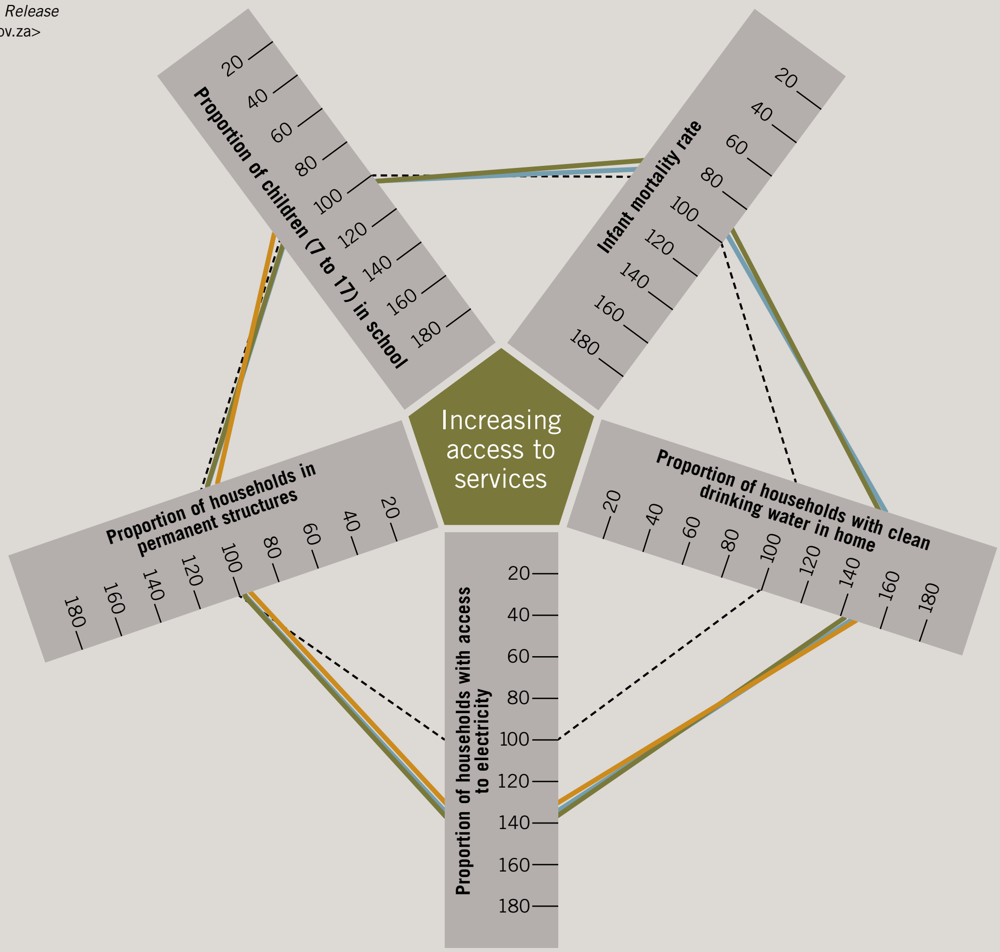
Access poverty scorecard

Transformation goal	Reduced poverty through better access to services					
Desired outcome	**Indicator**	**Status 1995**	**Status 2008**	**Status 2009**	**Status 2010**	**Positive development**
Reduced access poverty	Percentage of households living in a permanent structure[1]	77.6%	73.9% (2007)	75.8% (2008)	76.3% (2009)	↑
	Percentage of households with access to electricity[1]	62.9%	81.5% (2007)	82.7% (2008)	82.6% (2009)	↓
	Percentage of households with access to clean drinking water in the home[1]	48.9%	71.5% (2007)	70.9% (2008)	70.0% (2009)	↓
Reduced education poverty	Percentage of children 7 to 18 in school[1]	95.3%	94.7% (2007)	94.4% (2008)	94.7% (2009)	↑
Reduced health poverty	Infant mortality rate (per 100 000)[2,3]	45 (1990)	n.a.	45.7 (2008)	46.9 (2009)	↓
	Estimated HIV prevalence rate for population[3]	n.a.	11.0%	10.6%	10.5%	↑

1. *Sources*: Stats SA, *October Household Survey* 1995; *General Household Survey* 2006–2009
2. *Sources*: 1990 from *UNDP Human Development Index* (1990); 2005, 2007 & 2009 from Stats SA, *Statistical Release P0302 Mid-year Estimates* <www.statssa.gov.za>
3. *Sources*: Statistics South Africa, *Statistical Release P0302 Mid-year Estimates* <www.statssa.gov.za>

The Access Poverty Scorecard and Star provide a snapshot impression of changes in popular access to services that are important for human well-being.






Coca-Cola

briefing

THE TRAPS OF POVERTY AND THE POLITICS OF REDISTRIBUTION

Ebrahim-Khalil Hassen

INTRODUCTION

Two stylised South African households – at different points in the income distribution – provide a starting point to discuss high and persistent inequality in South Africa. Metaphorically, we call these households 'free' and 'trapped'.[1] Characteristics of trapped households include the following:

- no member of the household has formal employment, with informal and casual work providing approximately 20 per cent of household income;[2]
- none of the young adults (under 34 years) has any form of employment;[3]
- they contain recipients of state-provided pensions and child-support grants; and
- they have access to water, electricity and housing, which are subsidised in various ways by the government.

In one sense, the trapped household is successful. It has navigated the complex government bureaucracy and enjoys access to grants, subsidies and services. In addition, it has access to financial services, in the form of a banking account, and potentially participates in a *stokvel* (savings club). However, using the upper-bound poverty line, this household would still be counted as poor. More importantly, it would be unable to withstand a negative shock (e.g. the death of a member receiving an old-age pension), and lacks the mechanisms to enter the formal labour market. Consequently, this household displays an important contradiction in public policy – rising access to government services, without a substantive change in the available asset-accumulation strategies. This underpins the narrow set of opportunities for the upward income mobility of such households. Consequently, these households have a strong prospect of remaining below the poverty line over successive generations. The second stylised household is free in that it has a much wider range of opportunities, reinforced by access to quality higher education and health care. Characteristics of these households are:

- having two adult members working in full-time formal employment;
- receiving the majority of their income from employment, but with investment income available in the foreseeable future; and
- having access to public services, as well as private insurance for health care, and paying for private services, such as education, security and broadband Internet.

Through formal employment, such a household has regular income, which provides for consumption and investment opportunities. In some respects, the household has opted out of the public services, grudgingly paying private providers for education, health and security services. Importantly, the household has access to both insurance and credit markets, which it utilises to protect itself from negative shocks, and to build an asset base. Over the following generation, this household has strong prospects of building a more diversified and stable set of investments, with an increase in its asset holdings being a likely outcome.

The dichotomy of opportunities and asset holdings between these households is stark and, for this reason, has been the traditional concern of analysis of inequality. However, these households are connected in deep and often hidden ways that become evident only through focusing on the entire distribution of income and assets. At the most basic, shared citizenship in South Africa joins these households, as does the tax system. However, there is a deeper connection related to the future. Studies show correlations between highly unequal societies and higher levels violence, increased social unrest and low economic growth (World Bank 2006). At another level, there is a link in terms of capitalist production, with reproduction of wealth being linked to initial conditions. These connections across the income distribution have importance for development strategy, offering a way to assess the possibilities of a redistributive compact in South Africa. Eyben (2004: 32) offers an important reminder that:

> It is worth noting that other than in the field of gender, inequality in development theory has focused mainly on condition or status. This has been both with regard to what kind of inequalities exist – political, income/consumption, levels of human capital (less on status and prestige) and to the degree of inequality. Less has been published in the development literature on the processes related to the reproduction of inequality nor on how it is experienced by all parties to the relationship.

The simplified sketches of the two households – which have distinct strategies, but a shared context – raise questions about redistributive politics in South Africa. One important question is what politics and governance arrangements would support a more egalitarian outcome. This contribution argues that without significant change in power relations, inequality in South Africa is likely to remain high and resilient. To this end, the article explores channels that underpin and perpetuate inequality. Next, it evaluates two possible reconfigurations of power that potentially support a more egalitarian outcome. Finally, it argues that the best prospect for reducing inequality is through widening economic participation and introducing asset building into public policy; in doing so, the profound disconnection between rhetoric about a more equal society, on the one hand, and the power relations that perpetuate inequality, on the other hand, is explored.

UNEQUAL CHANNELS

There is wide consensus that inequality in South Africa is 'structural'. Studies on redistribution at the cusp of the democratic breakthrough provide evidence of systemic dispossession during colonialism and apartheid (Moll, Nattrass & Loots 1991). Sixteen years into the democratic dispensation, however, South Africa remains highly unequal, with democracy seemingly too weak to confront a legacy of unequal asset holdings, opportunities and outcomes. The literature on poverty traps offers a way to explore the persistence and resilience of poverty and inequality against public policy interventions. This section starts with an exploration of the concept of poverty traps, focusing on its limitations. Next, channels that reinforce inequality are explored.

Understanding poverty traps

There is a growing body of literature that understands poverty from a structural perspective. While, there is the lack of a common terminology,[4] the literature seeks to distinguish between poor households without a prospect of moving above the poverty line (the 'structurally poor') and those with a strong prospect of moving above the poverty line under one set of circumstances (the 'transient poor').

The basis for distinguishing between these two types of poor household differs across the literature. In fact, there are increasingly complex ways of distinguishing between these types of household, with the conceptual and empirical work on asset poverty offering innovative approaches (Carter & Barrett 2006). Improving how we define 'the poor' is important for public policy, as it helps us to understand and evaluate the veracity of the colloquialism that the rich get richer, and the poor get poorer. However, as shown in the South African debate on setting a poverty line, closing the loops between concept, definition and measurement is underpinned, itself, by power relations. The concept of poverty traps, thus, provides an imperfect lens to explore questions of why it persists, as there remain significant challenges in the area of the measurement of poverty.

What then do we mean by a poverty trap? A poverty trap can be described simply as a household likely to experience intergenerational poverty. In other words, poverty in such households is perpetuated from one generation to the next, with the household having weak prospects of developing a strategy to reach a higher accumulation path. Vijay Mahajan (2007: 196) puts forward this proposition succinctly, when he notes that: 'Poverty begins with low investment, which leads, in succession, to low productivity, low income, low or no savings, thus leaving no scope for investment and continuing the vicious cycle'. A similar tack is taken by David (2007) who argues that trapped households do not have the 'ability eventually to shake free from the influence of their past states'.

There are, however, significant challenges in interpreting poverty and inequality data through the lens of traps. Firstly, Azariadis and Stachurski (2005: 335) provide an important warning:

> In answering this question [i.e. evidence of a poverty trap], one must be very careful to avoid the following circular logic: First, persistent poverty is observed. Poverty traps are then offered as an explanation. But how do we know there are poverty traps? Because (can't you see?) poverty persists.

The warning is important, because it requires analysis to focus on relationships to explain high levels of poverty and, specifically, to explore the evidence suggesting that a household's livelihood and accumulation strategies are, indeed, path dependent and indicate the strongest possibility that without a dramatic change the household would remain in poverty.

Secondly, the chains of causality between poverty and inequality traps are complex and often not immediately visible. Recognising this complexity, an important World Bank publication, *Inequality in Latin America and the Caribbean: Breaking with history?*, suggests that any 'pretence to an exhaustive discussion of the causes of inequality is a shortcut to failure' (De Ferranti et al. 2003: 7).[5] The publication attempted to overcome this problem through the development of a framework of interactions between opportunities and outcomes that were perceived to be responsible for high levels of inequality in Latin America. Such a framework provides a demanding set of hurdles to overcome for arguments that explain the persistence of poverty and its operational links to inequality.

Thirdly, there is a coexistence between historical reinforcement of poverty and newer channels that perpetuate poverty. Since the democratic breakthrough, it has been common to argue that either 'neo-liberalism' or 'tenderpreneurs' are causes of persistent poverty. The exactness of each of these terms is beyond the scope of the paper; however, it is necessary to recognise features that may perpetuate poverty other than initial apartheid conditions. This is analytically important, as focus must be placed on how nascent democracies develop and implement social and economic policies that strengthen poverty and inequality traps.

Fourthly, poverty and inequality are conceptually different. Nevertheless, this paper speaks of 'poverty and inequality traps' because of the close relationship between the two in South Africa. The central argument (elaborated on below) is that reducing poverty will require significant changes to the income and asset distributions in South Africa. In other words, households would need to be able to craft an asset accumulation strategy that allows them to withstand a negative shock, and doing this requires building assets and expanding opportunities.

Initial conditions and continuity

South Africa's economic history is carefully and exhaustively described by Sampie Terreblanche (2002) who argues that South Africa's has a 'history of inequality'. There is widespread acceptance across the literature that the imprint of the past still plays a significant role in explaining South Africa's development outcomes. In this section, the intention is not to review that history, but rather to focus on how historical processes give rise to reinforcement mechanisms in the present and, in all probability, the future.

Empirical study of income distribution in South Africa provides a depressing picture of continuity, but not without changes. Using the best available data, income patterns have not changed substantively. Table 4.1.1 provides a summary of available data.

In interpreting the data, changes in this distribution have been highlighted. The most significant of these relates to the growth of the African middle class. Woolard et al. (2009) show that inequality has become more prominent within racial groups than it has between racial groups. The conclusion for them is that the changes in the income structure represent a shift from race-based forms of income inequality to more class-based forms of inequality. However, as Visagie (2010) shows, even at high rates of economic growth, the projected size of the African middle class does not increase significantly. Visagie's study is significant in that it further shows the resemblance of current income profiles to those developed during the apartheid era. It is, thus, important to recognise the growth of the African middle class, but also to recognise the interconnections between race and class in our society, and the interconnections between class position and the structure of the economy.

Table 4.1.1: Poverty and inequality, South Africa, 1993–2008

	Poverty		Inequality (Gini coefficient)		
	Upper poverty line	Lower poverty line	Rural	Urban	Overall
1993	72%	56%	0.58	0.61	0.66
2000	71%	54%	0.62	0.64	0.68
2008	70%	54%	0.56	0.67	0.70

Source: Woolard, Leibbrandt & McEwen (2009).

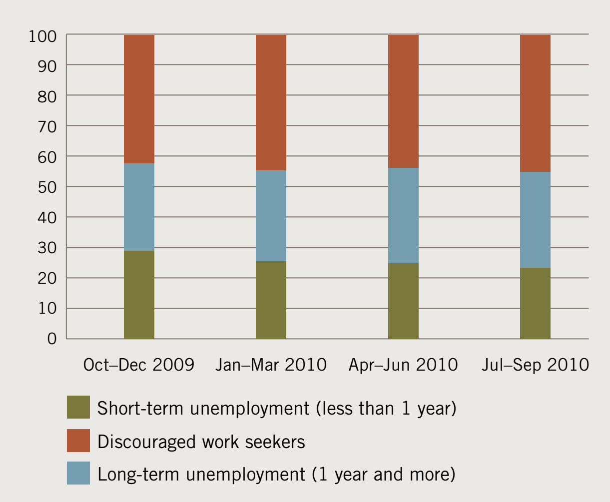
Structure of the economy

The underlying, steady state of poverty and inequality indicators provides evidence of a lack of income mobility for the poor, which, as discussed below, is underpinned by the structure of the economy. This is seen especially in high levels of long-term unemployment in South Africa. Figure 4.1.1 breaks down unemployment by short term (i.e. less than a year) and long term (i.e. more than a year), and includes discouraged work-seekers.

The data use what might be described as an 'expanded' definition of unemployment, and show that short-term unemployment has decreased, while discouraged work-seeking and long-term unemployment have increased as a percentage of the unemployed. Moreover, the data show that long-term unemployment constitutes 45 per cent of total unemployment using the expanded definition (this rises to 65 per cent if the official definition of unemployment is used). The data point particularly to the long-term nature of unemployment in South Africa.

What causes such high levels of long-term unemployment? Two competing readings of this question dominate discussion

Figure 4.1.1: Unemployment by percentages



Source: Stats SA (2010).

on economic policy-making, but both share a central weakness – the absence of detail on microeconomic strategies.

The first reading emphasises governmental success. Rooted primarily in fiscal management, the central contention is that positive consequences have resulted from the tough fiscal stance taken via the Growth, Employment and Redistribution (GEAR) macroeconomic strategy. The evidence includes increased social spending, economic growth, greater transparency in the budget and a reduction in the poverty and unemployment rates.

The strongest criticism of this reading to date is that the government was found wanting in protecting these gains as the recent global economic crisis spread to South Africa. This charge is highly relevant, since the strategy did envisage a significant increase in economic growth, followed by a substantial increase in employment and tax revenue. However, in making this argument it was asserted that in a globalised world the strategy offered the only realistic option to expand markets and ensure that South Africa would be able to weather the 'storms' of the economy. The then-Minister of Finance, Trevor Manuel, emphasised this argument in several budget speeches, creating an expectation that fiscal policy had positioned South Africa to be an effective player in the global economy.

However, the government's contention faces a significant reality check when indicators from before and after the recession are explored. Most damning is the fact that one million jobs were lost after the recession began. Nevertheless, it is important to keep in mind that the implementation of GEAR was incomplete. Seekings and Nattrass (2006: 349–350) argue that only two of the four major components of GEAR were implemented: reduction of the budget deficit and trade liberalisation. The other two components (privatisation and labour market reforms) were not, and this, according to Seekings and Nattrass, 'certainly contributed to GEAR not meeting its targets'. The incompleteness of the reform programme, however, highlights a deep contestation over economic policy, with the government facing significant resistance and mobilisation against the reforms. Supporters of the programme argue that the appropriateness and effectiveness of GEAR cannot be adequately assessed, because the benefits required the package to be implemented. In response, opponents of the GEAR strategy argue that had the full package been implemented a wider and deeper social and economic division would have occurred in South Africa, with a resultant breakdown of a nascent democratic project started in 1994.

The picture of rapture in economic policy with the introduction of GEAR, however, is contested. Building on the argument that GEAR was incomplete in its implementation, Seekings and Nattrass further argue that there were significant continuities between the late apartheid economic strategy and the post-apartheid strategy. Their argument rests on interpreting the economic strategy of the government in terms of the concept of 'high productivity now'. The strategy emphasised training incentives, high-value-added forms of production and continued support for labour market policy. Seekings and Nattrass argue that this created continuities between the apartheid model and the post-apartheid strategy, which were reinforced due to the power relations of economic players (especially business owners and trade unions) and the lack of power of economic insiders.

This argument could have provided greater insight had it carefully interpreted social and political mobilisation across the economic policy divide. In so doing, they would face a deep challenge on the grounds that the completed labour reforms could have resulted in a 'race to the bottom', with workers potentially earning below the poverty line. Yet, the deeper structural issues of the economy have not been addressed, because the proposed labour market strategy ultimately wants to redistribute from the poor to the very poor, and leaves the top income levels virtually untouched.

A second reading of the economy asserts that South Africa's economic choices have been ineffective in providing for a deeper restructuring of the economy, which would have the consequence of rapidly increasing employment and opportunities.

The most powerful of these arguments in terms of political mobilisation has been to categorise the South African government's strategy as neo-liberal restructuring. Such restructuring, it is argued, has reinforced initial conditions and has deepened the poverty and inequality traps. The argument is rooted in the continuation of macroeconomic policies (again) that were developed in the final years of the apartheid state. It contends that the introduction of GEAR provided evidence of the continuation of policies developed under the apartheid-era New Economic Model. Flowing from this 'embrace of neo-liberalism', the resultant decreases in social spending between 1996 and 1999, and significant increases in poverty were not simply about the impacts of liberalisation; rather, they carried with them the replication of systems of power and income distribution that supported capital. As a result, the government strategy has been termed colloquially the '1996 Class Project' (a very specific reference to GEAR), which emphasises the limited benefit that the working class (including the unemployed poor) have derived from economic restructuring.

This argument is reinforced by the fact that macroeconomic policy, even after the formal period of GEAR, has focused on managing the capacity of large conglomerates to disinvest in South Africa (Fine 2008). In other words, the choices about the economy are dictated by large, established players in the economy. Evidence of such power (often invisible and located in the corridors) can be found in the gradual, and now almost complete, liberalisation of exchange controls and in infrastructure programmes geared towards reducing the input costs of large businesses. There is much debate on the relevance of the 'minerals-energy complex' as a conceptual tool to understand the broader political-economy factors that shape economic choices, but notwithstanding this, it is evident that the 'continuity argument' carries significant weight. One does not need to look much further than the significant policy support that the post-apartheid state has extended to local and international investors, through a range of incentives such as infrastructure programmes and exchange control relaxation.

Moreover, change has resulted in the incorporation of new economic elites into this structure. Moeletsi Mbeki (2009) argues, in this regard, that black economic empowerment has entailed the incorporation of black elites into the existing structure, without changing the production patterns. In turn, this has resulted in BEE deals not focusing on investment in factories, people or other useful economic activity. A corollary to this argument has been the rise of tenderpreneurs. The characteristics of a tenderpreneur involve a close connection between politicians and businesspeople, focused on accessing government tenders. More to the point is that political influence and bribery are used to influence the adjudication of government tenders, thus locking out other companies. While evidence of tenderpreneurship is emerging, mostly in media reports, its full extent is difficult to quantify or even understand at present.

For all that distinguishes these two readings of the economy, a deeper criticism of economic opportunity provides a new dimension to the debate. To illustrate:

- The strength of dominant firms provides them with unique market positions and competencies to take advantage of any economic restructuring processes. This is due to levels of economic concentration in the South African economy, particularly in the private sector, which makes running viable small enterprises difficult. These firms have a 'first mover' or 'incumbent' advantage.
- Companies in South Africa effectively control entire value chains, and have colluded on prices. Thus far, collusion has resulted in higher prices, which should have benefited smaller players. However, smaller producers have not benefited from this collusion on prices, as dominant firms have sought to bring down input costs. This is supported by experiences in the car manufacturing, dairy and wheat industries, where so-called 'gate prices' have remained low. Moreover, at the point of sale, larger companies have effectively developed distribution networks that exclude additional products. Evidence of these practices has emerged in Competition Commission investigations into banking, bread, milk and even the retail selling of bicycles.
- Government interventions have proven ineffective in industries that are not reliant on government tenders. Lowitt (2008), for example, has examined the government's policy options for linking small agricultural producers to larger retail outlets and found that companies that are unlikely to compete for government tenders are less likely to comply with government interventions, such as black economic empowerment.
- Government monopolies have favoured big industry at the cost of smaller competitors. An important feature of the economic landscape is that the government itself maintains large monopolies in electricity, rail, ports and roads. While these are arguably public goods in the sense of being non-exclusive, arguments have emerged for breaking up these monopolies to improve the logistics of transporting goods and ensuring reliable electricity

supply. However, these industries traditionally have serviced larger entities in the mining and associated industries (Fine & Rustomjee 1996). Ostensibly, the significant expansion in infrastructure planned by the government well before the economic crisis has concentrated on larger companies, with insignificant focus on linking smaller farmers to rail and road networks, which are vital in getting goods to markets. At the same time, when the government has embarked upon liberalisation programmes in the telecommunications sector, for instance, it has been criticised for acting in the interests of the monopoly held by Telkom. An alternative of retaining current government stakes in these and other enterprises, but with significant reorientation in strategy, is proposed in the recent ANC manifesto. If implemented, it could utilise state-owned enterprises for a set of objectives wider than those related to improving economic competitiveness.

An important feature of the South African economy has been that economic opportunities for smaller players, entrepreneurs and start-ups have been reduced by the overall structure of the economy. Simply stated, the conditions for establishing and running a business successfully are not being created. This is an argument explored in the South African leg of the Global Entrepreneurship Monitor (Herrington, Kew & Kew 2009), which shows that South Africa lags behind comparable countries in terms of start-ups and opportunity-based enterprises (i.e. those likely to create a viable business and employment). The structure of the economy still supports larger firms, and excludes what Roberto Unger (in Muralidharan 2001) calls 'the little guy' – smaller players in the economy. This reduces entrepreneurial activity and limits the base to grow the economy. In other words, high unemployment reflects not only the common dispute over economic policy, but also that microeconomic reforms have not expanded opportunities for self-employment or entrepreneurial activity. It is important to note that small business development is certainly not a panacea; rather, prospects for more rapid economic growth and employment creation are enhanced with more opportunity-based businesses in the South African economy.

Economic growth and service delivery

The argument for the presence of inequality and poverty traps can be seen in the high-level poverty and inequality data, as well as the data showing a rise in long-term unemployment. Moreover, the conventional narrative of the economy does not explore the inability of South Africa to craft economic opportunities. Yet, South Africa experienced economic growth over several years before the recession, and service delivery has been expanded.

> The feedback between growth and inequality suggests a complimentary relationship between rising equality and sustained economic growth.

Contrary to claims of 'jobless growth' during the growth cycle that ended in 2009, Bhorat and Kanbur (2006) show that there was an increase in employment. However, unemployment levels remain amongst the highest in the world. Economic growth, in turn, has not reached the 6–7 per cent rate that is widely considered to be necessary for significantly reducing unemployment. A review of international studies on the relationship between inequality and economic growth, however, suggests possible reinforcements of traps, including the following.

- *Inequality places a damper on economic growth*. Several studies have shown that high levels of initial inequality (or, more precisely, the absence of an initial redistributive strategy) have a high correlation with low levels of economic growth and poverty reduction (Li, Squire & Zou 1998). There are different explanations for the common thesis. For instance, Alesina and Rodrik (1994) focus on the effects that high levels of inequality have on taxation, and argue that reinvestment does not occur. Other models focus on lessons from the East Asian Tigers, where an initial process of agricultural reform provided the basis for the traditional sector to acquire assets (Amsden 1989; Li 1988). Moreover, these societies point to the importance of a clear vision of the structural changes that could diversify the economy and ensure broad growth (Kim 1998; Chang 1999).
- *More equal societies tend to grow more quickly*. The feedback between growth and inequality suggests a complementary relationship between rising equality and sustained economic growth. If there is no empirical relationship between growth and inequality, as suggested by Kuznets (1955), and if the relationship does not hold across all countries, then the feedback of economic growth on equality is debatable (Anand & Kanbur 1993; Deininger & Squire 1996). However, there is a strong feedback from equality to growth, with more equal societies exhibiting more sustained economic growth (Alesina & Rodrik 1994; Clarke 1995).

- *Asset inequality matters*. Asset and endowment dependency reinforces inequality and low levels of economic growth. There is a distinction between the impact of income inequality and asset inequality on growth. There is a wide consensus on feedback from equality of access to education, initial land distribution (Birdsall & Londono 1997) and operated farmland (Deininger & Squire 1998).

These findings are contested, however, with inequality being seen as a necessary by-product of economic growth. However, as indicated above, entry of entrepreneurs into business is limited in the South African context for a range of reasons, which include access to insurance and credit markets. Thus, there are mechanisms associated with unequal access to the means to establish and operate a business, as well as initial conditions that reduce access to assets that reinforce current economic growth.

In addition, there has been a substantial rise in access to social services, social grants and public services. The expansion has been rapid, as shown in Table 4.1.2.

Table 4.1.2: Key service delivery indicators, 1996–2007 (percentages)

Indicators	1996	2001	2007
Households using electricity			
For lighting	58	70	80
For cooking	47	51	67
For heating	45	49	59
Water			
Equivalent to or above RDP standard	62	74	88
Tap in dwelling or on site		61	70
Sanitation			
Equivalent to or above RDP standard	52	59	73
Flush toilet		52	60

Source: The Presidency (2009).

Significantly, the expansion of these services potentially provides a platform for households to develop more robust and sustainable livelihoods. This, however, will be a consequence of time and, should households be able to utilise state-provided or subsidised services to craft accumulation strategies, the poverty traps thesis could be proven wrong. Evidence from the expenditure on social grants, for instance, shows that job searching, attendance at school and access to other government services has improved.

Deeper issues, however, question such an optimistic reading. In particular, it is important to note the following:

- *Assets cannot be leveraged*. Low-income housing and land redistribution have proven ineffective for leverage in credit markets. The interaction between government assets and credit markets, highlighted in several policy documents, remains an important area of debate.
- *Low and fragile income support*. The major cash transfer via grants is of a low value in comparison to poverty lines. Households no longer receiving grants (as a consequence of death or a child being above the age limit for the Child Support Grant) would result in a major livelihood shock. Thus, the vulnerability of households has not been reduced. Moreover, levels of income support are low, and savings are unlikely.
- *Quality of services*. The provision of services (such as education) could provide a long-term mechanism to promote income mobility. However, schooling for poor children in South Africa leaves much to be desired. Without substantive changes in the quality of education, young adults on reaching matric would be unlikely to enter either tertiary education or the formal labour market.

THE POLITICS OF BREAKING INEQUALITY

The picture of inequality in South Africa is indeed challenging. It has been argued here that the available evidence suggests that income distribution patterns have not been altered significantly, and that several channels prop up and continue to reproduce inequality. The attempt has not been to provide an exhaustive list of channels that perpetuate inequality, but rather to emphasise that power relations, economic structure and service delivery are core to understanding inequality. In this section, we turn our attention to the politics of breaking inequality, starting with a discussion on the social compact.

The social compact

An important feature of 2010 has been a strong and vocal commitment to creating a social compact. There are two versions of the same concept. Proponents of a 'developmental state' argue for the government to assume a leading role, but with strong ties and channels of communication with social partners. In this sense, the state should exhibit ‘embedded autonomy’. Peter Evans (1995: 12) argues that the developmental state ‘is embedded in a concrete network of social ties that binds the state to society and provides institutional channels for the negotiation and continual renegotiation of goals and policies’. Evans utilises a set of imprecise definitions, such as ‘corporative coherence’ and ‘connections’, that translate into the state leading society in collective action. Consequently, embedded autonomy may be described as the structural basis for effective state involvement in the economy. The literature is not totally clear on whether it is the state or companies that are ‘embedded’. However, this is easily resolved, as Evans is speaking about corporations and the government cohering around a developmental path and strategies. Implicitly, for this approach to succeed, the proverbial ‘balance of power’ should rest with the state, as it has a wider mandate to meet public rather than private goals. Caldentey (2008) places an emphasis on intervention, which should have the active participation of the private sector. The social compact, in this sense, is state-led and grounded in a broad economic vision of the future.

The second version of the social compact, lies not in economic strategy, but rather in the setting of prices. The core argument is that more egalitarian outcomes are achievable if prices – especially wages – are set to encourage low-skilled employment. Seekings and Nattrass (2006) provide the clearest exposition of this idea, arguing that a social compact that is ‘outsider-friendly’ would require significant changes to labour legislation, wage restraint and a combination of public works and means-tested social security.

Both versions of the social compact promise a significantly more egalitarian outcome, and are motivated for with specific reference to those excluded from the formal economy. Can such a political solution deliver on its promise? Are there significant reasons to doubt the veracity of either proposal? The central criticism is that power relations and economic structures that have given rise to high inequality remain virtually untouched. In the proposal for wage restraint, the redistributive mechanism is from the ‘not so poor’ (i.e. formally employed workers) to the ‘very poor’ (i.e. unemployed workers). In fact, Seekings and Nattrass, present wage restraint and labour reform proposals without tackling issues such as competition or industrial policy. Consequently, their model fails to deal with the structure of the economy.

The ‘developmental state’ literature is focused explicitly on the structure of the economy, but has a central weakness. Since 1994, various programmes and agreements between social partners have not resulted in a private sector response that has been sufficiently labour absorbing. Evidence indicates that the private sector, especially organised large business, has adapted to new regimes without providing the intended response. This can be seen in recent cases before the Competition Commission, where large role-players in business have been investigated for inappropriate pricing of commodities and the utilisation of ‘independent contractors’ to circumvent labour laws.

The pro-poor social movement

The primary criticism of the social compact, either through a developmental state or through elite compacting, is that the changes will be modest and not supportive of structural change. An alternative argument is that power relations in society need to change for egalitarian outcomes to be achievable and sustainable. The dominant strands see deepening democratisation as a catalyst for greater equality.

Gelb (2003) argues that a vertical alliance between the poor and the middle class is needed to improve conditions for democratisation. The channel is important, as is demonstrated in the recent case of price collusion in the bread industry. The case was brought to the Competition Commission by a small bread distributor, but was supported by a range of organisations, including trade unions. Employing this channel would potentially require the trade union to develop a new set of alliances. Importantly, though, such alliances would require the presence of trade unions to be able to provide a high-level challenge to entrenched positions in the economy. The central point for the trade unions is that developing such alliances is an option, and arguably better than a social accord. The prospect of a vertical alliance, however, also raises the prospect of a horizontal alliance. Imagine the potential of an ‘anti-poverty coalition’ that brings together churches, social movements, non-governmental organisations and trade unions. Such forms of alliance have already emerged around public expenditure, HIV/AIDS and social security, but unfortunately have lacked co-ordination and development.

Friedman and Chipkin (2001) argue that without a deepening of democracy, the poor will remain marginal to the development of public policy. In fact, they argue that the procedural and liberal democracy in South Africa is central to the reproduction of inequality. The strategy of increasing opportunities for the poor to impact upon public policy issues is an important area, especially if the poor are to shift their electoral strength towards the power to claim entitlements and to increase endowments. However, extending and deepening democratic process could arise from either community-level actions or the government. The emergence of the idea of a ‘democratic developmental state’ shares a similar ethos, in that it emphasises democracy, but the concept of the developmental state also seeks to improve the workings of the state through significant focus on improving employment levels. The assumption guiding the idea of the developmental state is that old strategies of statecraft have not provided the optimal option for development and the deepening of democracy.

There is, however, a different strand focused not on democracy but on redistributive programmes. The Basic Income Grant (BIG) is one such example and, arguably, the call for the nationalisation of the mines is another. The important feature of these disparate policy proposals is that they have sought to build alliances with the poor, and with the middle classes. The central observation on these strategies is that they advocate a policy position and have developed a set of mobilising tools.

Comprador capture

The social compact and the reconfiguration of pro-poor alliances offer an optimistic view of the future, despite their substantive differences. The rise of tenderpreneurs offers a more pessimistic reading of the future. Tenderpreneurship focuses on the capture of the state by a narrow and self-serving political elite with tentacles in the private sector. Tenderpreneurship denotes a reliance on both government tenders and the successful bidders, who are usually middlemen without production capacity. This is an important narrative that cuts to the core of the issues related to redistribution.

Post-colonial societies have experienced elite capture, or what the dependency theorists call 'compradors'. State power in South Africa is already being seen as catering not to the needs of organised business, but rather to the interests of power blocs within the ruling ANC and its alliance partners. The politics of patronage might be a shorthand description of this argument, which is rooted in opposition parties that argue that the benefits of democratisation are being shared amongst a few in the political elite. Beyond the histrionics of political parties searching for ascendancy, there is evidence of patronage, specifically in black economic empowerment deals.

TOWARDS EFFECTIVE REDISTRIBUTION

Power relations play a significant role in the maintenance of inequality. The prospects for either a social compact or a reconfigured pro-poor coalition will be dependent on a range of factors, which are outside the scope of this paper. The policy package being developed in either of the options (with significant variation amongst each) would be strengthened with a greater focus on asset-based policies. Asset-based policies can be described as:

> public policy and private sector efforts to enable persons with limited financial resources to accumulate and preserve long-term, productive assets – savings, investments, a home, post-secondary education and training, a small business and a nest-egg for retirement. (New America Foundation, http://www.newamerica.net/)

Various channels for assessing the presence of poverty and inequality traps have been discussed above. Moreover, specifically related to assets as a response to traps, attention should be placed on removing restrictions to asset accumulation, usage and returns, and on tailoring policies aimed at the asset poor. Assets are defined more widely than physical or financial assets, and include human capital, natural and even political and psychological assets (Moser 2007).

The potential policies that could constitute an asset-based strategy are limitless, however four strategies provide a basis for imagining a widening of opportunity and building of assets in poor households:

- *Employment guarantees*. The Indian example of an employment guarantee for rural areas shows the possibility for state provision of income support to the working-age population. The Community Works Programme in South Africa provides a similar form of regular income to identified communities. In turn, community-based assets have been developed.
- *Small business start-ups.* The importance of starting up small businesses in South Africa is sometimes exaggerated. There are as many as six million small businesses in South Africa. A significant number, however, are unregistered and, as such, are excluded from the majority of the government's programmes (due to being informal).
- *Savings accounts*. Internationally, governments are increasingly opening bank accounts for children, especially those on welfare. The idea being that, over

> The available evidence suggests that income distribution patterns have not been altered significantly, and that several channels prop up and continue to reproduce inequality.

time, deposits into the account (from the government and private individuals) would create an asset than can be utilised once the child attains majority. Other experiments incentivise savings through matching contributions from the government or donors.

- *Social security reform*. The Latin American experiences with conditional cash transfers (CCTs) provide a lesson on how social security can be extended across the population, especially to unemployed adults. CCT programmes typically are paid to families (not individuals, as is the case in South Africa) and are linked to activities such as school attendance and immunisation. There are criticisms of these reforms, of course, but there are substantive areas of success, notably in the decline in inequality experienced in Brazil.

The impact of even one of these initiatives could be substantial in widening opportunities. The point of emphasis is that asset-based policies are largely absent in the development discourse in South Africa. Yet, in the context of a growing economy, these strategies potentially provide the mechanism for poor households to begin participating in the economy. In turn, they open up opportunities through lessening barriers to participation.

NOTES

1 The households' characteristics are drawn from examples in the National Income Dynamic Study (NIDS). However, these are stylised households, utilised to explore issues in this article. See Finn, Leibbrandt & Woolard (2009).

2 This estimate is drawn from Stats SA (2009), which provides a study comparing social grant access in 2003 and 2007.

3 According to the Quarterly Labour Force Survey, Third Quarter (2010), just over 70 per cent of the unemployed are between the ages of 15 and 34 years (Stats SA 2010).

4 The literature on structural poverty traps has a large number of descriptors for the same phenomena. For instance, words such as 'chronic poverty', 'structural poverty', 'asset poor' and 'intergenerational poverty' essentially describe a situation where a household is likely to be persistently below the poverty line. There are, of course, differences in each of these concepts, but they are inconsequential in exploring the kernel of the idea that there are individuals, households and groups that remain persistently poor.

5 As a reflection on this complexity, the report (World Bank 2003) argues that: 'Opportunities, assets, and outcomes are also related in causal ways. This report clearly cannot attempt to provide an exhaustive treatment of the determinants of inequality. After all, as just stated, even "simple" income inequality refers to the dispersion in the distribution of all incomes. This distribution is determined within the general equilibrium of complex modern economies in which market imperfections, incomplete information, strategic interactions, and political processes simultaneously occur. Going beyond static economics, the institutions mediating a number of these economic processes have long historical roots and reflect cultural patterns that are often deeply ingrained.'

research

SILENT VICTIMS: CHILD POVERTY IN THE WAKE OF THE GLOBAL ECONOMIC CRISIS

Margaret Chitiga, Bernard Decaluwé, Ramos Mabugu, Helene Maisonnave, Véronique Robichaud, Debra Shepherd, Servaas van der Berg and Dieter von Fintel

INTRODUCTION

Although the impact of the recent global economic crisis was already being felt by several states in 2007, South Africa only started to feel its full impact in the second half of 2008. During this period, the country saw a significant decline in export demand and prices, as well as foreign investment. From the fourth quarter of 2008 until the second quarter of 2009, negative GDP growth was recorded, which saw the country enter its first recession in 17 years. Not surprisingly, the slowdown in economic activity reduced employment and household and firm incomes and, as a result, put government revenue under pressure. Given that poverty and inequality in South Africa are high in relation to its level of development, the plight of the poor took a significant turn for the worse, exacerbating the country's already dismal statistics in this regard. Since the phenomenon of poverty is so multifaceted, its impact has been dispersed and unequal. Because childhood poverty has always been more acute than any other form of poverty in South Africa, the assumption can be made that this section of the population may have been the worst affected by the recent downturn.

The plight of the poor took a significant turn for the worse, exacerbating the country's already dismal statistics in this regard.

This article focuses on evaluating the effects of the world economic crisis on child poverty in South Africa. A computable general equilibrium (CGE) model was linked to micro-econometric models, which enable us to trace the channels through which the economic crisis was transmitted to households and child poverty, as well as the magnitudes thereof.

What follows in this article is, first, a profile of child poverty and a description of the data used for the model. Thereafter, the model and simulations are discussed. The penultimate section reports on and discusses results of the various simulations, and the final section draws conclusions.

A PRE-CRISIS PROFILE OF CHILD POVERTY

Before we proceed with the analysis, we present a profile of child poverty before the global slowdown started to gain momentum. Table 4.2.1 provides a detailed breakdown of child poverty for children between 0 and 17 (in 2005 figures) in terms of age, gender and population groups. The poverty line set for this study was put at the 40th percentile of household per capita income in Statistics South Africa's 2005 Income and Expenditure Survey (IES). A number of general remarks can be made in regard of the data analysed. To do this we consider three poverty measures. P_0 represents the percentage of the relevant population falling below the poverty line (in other words, the percentage of people living in poverty). P_1 can be viewed as the average income that each citizen in the country would have to transfer to the poor to move them above the poverty line. P_2 adds another dimension to these measures by considering more clearly how poor the poorest in society are.

In general, poor households are larger than affluent households. The poverty headcount for the population as a whole was 52.9 per cent, but it was evident that this average figure obscures some of the nuances of poverty in South Africa, particularly as it relates to childhood poverty. For example, it is evident from the data that poorer households have a disproportionate number of children: 65.5 per cent of children (approximately 11.8 million) in the age group that was researched found themselves in the country's poorest households, against only 45.2 per cent of the adult population.[1]

Moreover, the depth and severity of poverty is much higher for children than for adults, suggesting that children are more concentrated in the poorest households than adults are.

Table 4.2.1 furthermore illustrates that the poverty headcount is higher the younger the children are, although children aged between five and 14 years make up the greatest percentage of those living in poverty, given the proportion that this category constitutes of the selected age group. The racial dimension of poverty also comes to the fore quite starkly in this representation of the data. It shows that child poverty is the highest amongst African and coloured children, of which 72.5 per cent and 41.3 per cent respectively can be categorised as poor. For Asians, this figure stands at almost a

Table 4.2.1: Poverty profile for children, using per capita income as the welfare measure, with poverty line set at 40th percentile of households

	Child poverty (0–17 years)					Adult poverty		
	P_0 Poverty headcount rate			P_1 Poverty depth measure	P_2 Poverty severity measure	P_0 Poverty headcount rate	P_1 Poverty depth measure	P_2 Poverty severity measure
	Rate (%)	Share (%)	Number			Rate (%)		
Age								
0–4	66.1	26.0	3 066 509	0.336	0.213			
0–4	66.1	26.0	3 066 509	0.336	0.213			
5–14	65.7	56.5	6 681 507	0.343	0.202			
15–17	63.8	17.5	2 067 609	0.332	0.203			
0–17 (all children)	65.5	100.0	11 822 544	0.328	0.205			
18+ (all adults)						45.2	0.213	0.126
Racial group								
African	72.5	93.9	11 100 826	0.375	0.232	54.4	0.261	0.156
Coloured	41.3	5.3	623 412	0.167	0.093	30.1	0.110	0.057
Asian	24.2	0.7	76 137	0.093	0.052	13.7	0.049	0.027
White	2.0	0.2	18 081	0.012	0.008	1.2	0.006	0.004
Gender								
Girls	65.4	49.1	5 819 410	0.336	0.204	39.7	0.238	0.142
Boys	65.6	50.9	5 985 265	0.332	0.206	49.9	0.184	0.109
Urban/Rural location								
Rural	82.8	63.3	7 376 451	0.446	0.280	69.0	0.344	0.209
Urban	48.6	36.7	4 442 491	0.226	0.133	31.7	0.139	0.080

Source: Own calculations using income and expenditure of households (IES) 2005 data (Stats SA 2007).

Note: P_0 represents the proportion of people (children) living in poverty; P_1 is the poverty gap, representing the average income it would take to move all the poor above the poverty line; P_2 measures poverty severity, by emphasising the poverty gap of the poorest in its calculation. See Foster, Greer & Thorbecke (1984).

quarter (24.2 per cent), while the comparative figure for white children is the lowest at 2.0 per cent. In terms of the gender analysis, there seems to be only a marginal difference between young girls and boys, with the former being slightly better off than the latter.

The most striking feature of this analysis, however, is the significant difference between the numbers and percentages of rural and urban poverty. Despite the increasing concentration of South Africans in urban areas, 63.3 per cent of child poverty is concentrated in rural areas. The dire state of affairs of children in rural areas becomes even more

Not only are children the worst affected section of the population, but most of this group also reside in areas that are furthest removed from the formal economy and the reach of the state.

apparent when the depth and severity of poverty are considered: rural poor children are further below the poverty line than the urban poor are, and the rural child poverty headcount thus rises as the poverty line is set lower. This dimension of poverty amongst children provides a significant challenge to addressing the broader scourge of poverty in South Africa. Not only are children the worst affected section of the population, but most of this group also reside in areas that are furthest removed from the formal economy and the reach of the state.

DATA AND METHODOLOGY

In order to ascertain the impact that the global economic meltdown has had on citizens, and particularly on poverty estimates, the first stage of this modelling process requires a simulation of the macroeconomic impacts of the crisis, which can then be used to feed into a model that can generate poverty estimates. To this end, the CGE model referred to in the introduction was built on the basis of a social accounting matrix (SAM) derived from the 2005 Supply and Use tables from Statistics South Africa, as well as supplementary national data sets from various sources, *inter alia* the Reserve Bank.[2] The CGE model used is dynamic recursive in nature, and the business-as-usual (BAU) projections are built on the 2005 GDP projections without anticipating the crisis. This means that the reference or baseline is a situation that traces the way South Africa would have grown without the crisis. We can then compare the situation that would have obtained without the crisis and the situation with the crisis.

An adapted sequential dynamic CGE model, based on the dynamic Poverty and Economic Policy (PEP 1-t) standard model by Decaluwé et al. (2009) was used for this study. This model is dynamic in the sense that it tracks more than one period (as static models do). It traces the economic outcomes from several years, up to 2015. Several assumptions were changed to better reflect the South African economy. The model has two production factors: capital and labour. The latter is further disaggregated into informal, unskilled, semi-skilled and highly skilled workers.[3] Most standard CGE assumptions are used and, where necessary, these are adjusted to suit the South African reality. For instance, the model recognises that South Africa faces high unemployment and has a highly unionised labour force that has substantial bargaining strength. As a result, wages and salaries are not allowed to fall, even in periods of reduced employment, due to the need to reduce output; we, therefore, assume that wages cannot decline below a predetermined minimum threshold. Thus, if production decreases, producers will not have the option to adjust through a reduction in wage levels, and will have to retrench workers. This reality, our study found, is one of the main and most direct transmission channels from the crisis to child poverty.

In order to simulate the effects of the economic crisis, we split the economy into four different groups of activities. Each group is defined by its degree of dependency/exposure to the global crisis, and is assumed to be affected differently by the crisis. South Africa is a small country and, thus, world prices are assumed to be exogenous. However, South African exporters do not have unlimited demand for their exports, and accept reduced prices and income in order to remain competitive in the international market. In the same way, commodities that rely relatively heavily on imports experienced a fall in prices internationally due to the crisis, which, in turn, led to an increase in the demand for these imports.

The four groups that we have distinguished between are defined as follows (see Table A1 in the Appendix):

- *Unaffected sectors (Group 1)*: It is assumed that these sectors will face neither a reduction in foreign demand nor a reduction in international prices. Basically, this group consists of gold, food and beverage commodities.
- *Weakly affected sectors (Group 2)*: These sectors are not heavily dependent on foreign trade and are not closely related to other sectors. Agriculture, clothing and wood are included here.
- *Mildly affected sectors (Group 3)*: Like the previous group, these sectors are not heavily dependent on foreign trade but are closely linked to other sectors. Such sectors will react to a reduction in consumption, investment expenditures or demand for intermediate goods. This group includes most transport products, trade and construction.
- *Strongly affected sectors (Group 4)*: These sectors are linked closely to international markets on either the export or the import side. Here we find fossil fuels, other mining, machinery and equipment.

Two scenarios (severe and moderate) are presented over and above the BAU scenario, and are distinguished by the supposed magnitude of the recession.[4] The moderate scenario is consistent with the view that growth began to pick up, albeit moderately, from the end of 2009 onwards. We also model a severe scenario that reflects a protracted, slow global growth period and implies tight public budgets for some time to come. Tables 4.2.2 and 4.2.3 present the details of the proposed scenarios.

Table 4.2.2: Moderate scenario – moderate growth from 2009 onwards

	Changes in world prices of exports and imports			Changes in world demand for exports		
	2008	*2009*	*2010*	*2008*	*2009*	*2010*
Weakly affected	-2%	-2%				
Mildly Affected	-3.5%	-3.5%	+2.1%	-2%	-2%	+2.1%
Strongly affected	-5%	-5%	+2.1%	-2%	-2%	+2.1%

Table 4.2.3: Severe scenario – slow growth

	Changes in world prices of exports and imports			Changes in world demand for exports		
	2008	*2009*	*2010*	*2008*	*2009*	*2010*
Weakly affected	-10%	-10%				
Mildly Affected	-15%	-15%		-10%	-10%	+1%
Strongly affected	-20%	-20%		-10%	-10%	

In terms of foreign financing of domestic firms, we assume that foreign transfers to firms decrease by 5 per cent in 2008 and 2009 and then increase by 2.1 per cent in 2010 in the moderate scenario. In the severe scenario, we assume that they decrease by 10 per cent in 2008 and 2009 and then increase by 1 per cent in 2010. This reduction corresponds to a tightening of the liquidity available to firms to finance their investment programmes, and has an indirect impact on the current account, as it reduces the financial resources available to finance imports, and will require an increase in exports to compensate. After 2010, world prices recover to their BAU values, and world demand increases at the population growth rate.

The results from the CGE macroeconomic simulations were fed into a micro-econometric model of households in the economy to estimate the likely effect of the economic crisis on child poverty in South Africa. We estimate the effect of the economic changes simulated by the CGE model on households through three channels:

- variations in prices that were assumed to alter spending habits of all households and, consequently, their welfare;
- variations in wages in different skills categories and sectors, which, by implication, should not rise as quickly under the crisis scenarios as under the BAU scenario; and
- changes in employment for the three formal labour market categories (this has been identified as one of the major transmission channels).

The methodological approach here draws from the work of Cockburn, Tiberti and Fofana (2010) and Bibi et al. (2009, 2010). Aggregate household consumption was converted to per capita equivalents using a 'caloric requirements' approach by age and sex based on WHO tables (FAO/WHO/UNU 1985). The Almost Ideal Demand Systems (AIDS) of Deaton and Muellbauer (1980) was used to convert individual consumption into real consumption over time. By using price results from the CGE model, poverty rates after the crisis were compared to pre-crisis equivalents.

The results show that change in employment levels was the most significant explanatory variable relating to the changes that have been witnessed in poverty levels. Probit models of employment in various skills categories identified those workers most likely to lose jobs when employment declines, and then were fed through from the CGE model. Those affected by this particular shock lost all labour market income after the crisis. Wages of those who remained employed were also adjusted according to the shocks from the macro model. The 2008 National Income Dynamics Survey (NIDS) provided the most suitable survey data to allow for the simulation of both consumption and labour market changes simultaneously. The 2008 data were assumed to reflect the situation before the crisis, because, as suggested earlier, the major impact of the crisis (and on the labour market) only started to emerge around that time.

Because different values were simulated, each scenario produced different changes in output, in prices and, thus, in labour and capital. However, the final impact on households depends on their factor endowments and their sources of income, including transfers, as well as their consumption patterns. The results of the CGE analysis are discussed first, followed by the results of the micro modelling.

RESULTS

Macroeconomic shocks

The macroeconomic simulations from the CGE model are discussed fully in Chitiga et al. (2010); for the purposes of this article, we turn our attention to the direct impacts on households. However, it is worth bearing in mind that many other sources, such as international prices, indirectly affect the outcomes that are discussed here, and, as a result, the wages and jobs that they can offer households through the incomes of firms and the government.

Firms that experienced declines in exports and production retrenched workers, because the economic climate did not allow them to adjust the nominal wage of labour. Only non-affected sectors, such as the gold sector, benefited from the crisis. As indicated above, gold exports increased during this period, leading to job creation in this sector.

Table 4.2.4 shows that retrenchments were not uniform across the different labour categories and that highly skilled workers were amongst those that were least exposed to the crisis. Despite significant job losses during 2008 and 2009 (and 2010 for the severe scenario), it is evident that the problem of a shortage of skilled workers continues to grow. This differential labour hiring situation represents particularly well what happened during this period in South Africa.

Table 4.2.4: Impact on total labour demand (percentage change from BAU)

	High skilled		Skilled and semi-skilled		Low skilled	
Year	*Moderate*	*Severe*	*Moderate*	*Severe*	*Moderate*	*Severe*
2008	-4.40	-20.73	-4.90	-19.57	-5.86	-23.87
2009	-2.36	-20.82	-3.96	-20.50	-4.23	-24.65
2010	0	-5.49	-1.33	-7.86	-1.04	-8.24
2015	0	0	-1.21	-6.59	-0.99	-5.28

For the BAU scenario, we observed that unemployment decreased for each category over time, due to the fact that capital almost invariably grows faster than labour. The results reported in Table 4.2.5 show that in the base year the unemployment rate is very low (1 per cent) for highly skilled workers only, and actually decreases under the BAU scenario to reach 0 per cent in 2015. In 2009, in the severe scenario, for skilled workers, the unemployment rate reaches a little over 20 per cent.

In addition to the three labour categories described above, informal labour was modelled. Assuming no unemployment of informal labour, the crisis impacts on their wage rate, which falls sharply (-5 per cent in 2008 in the moderate scenario, and -22 per cent in the severe scenario). In the same way, it is not surprising to see a decrease in the rate of return to capital in most sectors, as most of them were affected by the crisis, through a drop in either selling prices or demand. Taking these results into account, we can now analyse what happens to the different agents following the crisis.

Table 4.2.5: Simulated unemployment rates for various labour categories (percentage)

	High skilled		Skilled and semi-skilled		Low skilled	
Year	*Moderate*	*Severe*	*Moderate*	*Years*	*Moderate*	*Severe*
2005	1.00	1.00	15.00	15	26.4	26.4
2008	4.40	20.73	17.18	29.96	28.16	41.90
2009	2.36	20.82	15.50	30.05	26.07	41.83
2010	0.0	5.49	12.23	18.04	22.73	28.36
2015	0.0	0.0	7.02	12.08	18.42	21.96

In the severe scenario of the crisis, GDP falls in 2008 and 2009, and then increases again. However, it does not return to its BAU value even by 2015. In other words, without positive shocks or deliberate and successful interventions to stimulate the economy and counteract the negative effect of the world crisis, GDP will not recover to what it would have been without the crisis.

Simulated impacts on child poverty

A full set of simulated poverty measures is presented in Table 4.2.6. Again, the three measures of poverty are considered; this time, the changes relative to the pre-crisis scenario are shown in percentages. For example, the proportion of children in poverty would have declined by 0.8 per cent in 2008 under the BAU scenario; however, it would have been 0.2 per cent and 4.4 per cent higher under the moderate and severe scenarios respectively. This gives us an indication of the relative impact of the crisis on child poverty.

Child poverty in 2007 (before the crisis) was estimated at 52.6 per cent when using the moderately low poverty line of R250 per capita per month in 2000 rand terms, or R377 in January 2008 (when applying the NIDS data).[5] Without an economic crisis, this headcount rate of child poverty would have declined by a small percentage every year: to 52.2 per cent in 2008, 51.9 per cent in 2009 and 51.8 per cent in 2011.

Table 4.2.6: Trends in poverty under three scenarios, 2007–2011								
Year	**Level**	**Poverty measure**	**BAU scenario**	**Percentage change (relative to 2007)**	**Moderate scenario**	**Percentage change (relative to 2007)**	**Severe scenario**	**Percentage change (relative to 2007)**
2007	Individual level	P_0	0.468	0.0				
		P_1	0.183	0.0				
		P_2	0.095	0.0				
	Child level	P_0	0.526	0.0				
		P_1	0.205	0.0				
		P_2	0.107	0.0				
2008	Individual level	P_0	0.463	-1.1	0.471	0.6	0.508	8.5
		P_1	0.182	-0.5	0.208	13.7	0.287	56.8
		P_2	0.095	0.0	0.125	31.6	0.212	123.2
	Child level	P_0	0.522	-0.8	0.527	0.2	0.549	4.4
		P_1	0.205	0.0	0.230	12.2	0.294	43.4
		P_2	0.106	-0.9	0.137	28.0	0.208	94.4
2009	Individual level	P_0	0.462	-1.3	0.465	-0.6	0.510	9.0
		P_1	0.182	-0.5	0.197	7.7	0.287	56.8
		P_2	0.095	0.0	0.113	18.9	0.212	123.2
	Child level	P_0	0.519	-1.3	0.522	-0.8	0.545	3.6
		P_1	0.204	-0.5	0.219	6.8	0.304	48.3
		P_2	0.106	-0.9	0.125	16.8	0.215	100.9
2010	Individual level	P_0	0.462	-1.3	0.460	-1.7	0.479	2.4
		P_1	0.181	-1.1	0.181	-1.1	0.216	18.0
		P_2	0.094	-1.1	0.094	-1.1	0.133	40.0
	Child level	P_0	0.519	-1.3	0.518	-1.5	0.536	1.9
		P_1	0.203	-1.0	0.203	-1.0	0.238	16.1
		P_2	0.105	-1.9	0.105	-1.9	0.145	35.5
2011	Individual level	P_0	0.459	-1.9	0.460	-1.7	0.472	0.9
		P_1	0.179	-2.2	0.180	-1.6	0.206	12.6
		P_2	0.093	-2.1	0.094	-1.1	0.122	28.4
	Child level	P_0	0.518	-1.5	0.518	-1.5	0.529	0.6
		P_1	0.201	-2.0	0.202	-1.5	0.228	11.2
		P_2	0.104	-2.8	0.104	-2.8	0.135	26.2

Source: Own projections.

Note: The percentage change is shown relative to BAU in 2007. P_0 represents the proportion of people (children) living in poverty, P_1 is the poverty gap, representing the average income it would take to move all the poor above the poverty line, and P_2 measures poverty severity by emphasising the poverty gap of the poorest in its calculation. See: Foster, Greer and Thorbecke (1984).

Figure 4.2.1, which depicts the data in Table 4.2.6 more graphically, shows that the most severe effects of the crisis on poverty occurred in 2008 and 2009, while by 2010 a reversal occurred, even under the severe scenario.[6]

Under the moderate scenario, the child poverty headcount ratio (P_0) increases minimally (by only 0.1 percentage points, or 0.2 per cent). However, it is evident from Table 4.2.6 that there is a 12 per cent increase in the child poverty gap ratio (P_1) and a 28 per cent increase in the child poverty severity ratio (P_2). This indicates that much of the impact under this scenario is concentrated in the poorest of households. Child poverty declines as early as 2009 under the moderate scenario, with a headcount rate that is below pre-crisis levels. Nevertheless, poverty severity does not decline as rapidly, suggesting that the poorest are unable to recover from the crisis.

Under the more severe scenario, the child poverty headcount ratio would rise by 4.4 per cent (2.3 percentage points) to 54.9 per cent in 2008, the poverty gap ratio by 43 per cent and the poverty severity ratio by 94 per cent. Again, the poorest children would have been most affected by the crisis, with little relief in 2009.

Figure 4.2.2 shows the distributional effect of the moderate scenario in 2008 and 2009.[7] These scenarios are barely distinguishable from the pre-crisis situation, indicating that the shocks impacted only mildly on the income distribution. In contrast, the hypothetical removal of child-support grants (CSGs) from all households would pose a substantially worse child poverty shock than the impact of the economic crisis. This suggests that under this scenario the recession did not undo the benefits that this policy had on child poverty before the crisis. A similar analysis under the severe scenario, however, suggests that the beneficial effects of the child support grant are in fact offset by the crisis, but only for the poorest children.

We now turn to the urban-rural dimension of poverty, which is illustrated in Figure 4.2.3. In 2007, poverty amongst children was 44.9 per cent in urban areas and 58.7 per cent in rural areas. While poverty rises at a similar pace in both areas, the crisis affects the poorest children in rural areas much more than the poorest children in urban areas (as evidenced by the quicker rise in poverty severity, which is not shown in the figure). It is evident that should the government remove CSGs, it would have an effect unrivalled by any of the crisis scenarios in rural areas. In contrast, the severe scenario would have had a similar impact in 2009 if CSGs had been removed. This indicates the stronger dependence on CSGs in rural areas. No scenario would increase urban child poverty to even the most favourable position in rural areas. This indicates that child poverty is far more widespread in rural areas.

The greater poverty effect of the crisis at the lowest income levels, particularly in rural areas,[8] is counterintuitive, as employment losses should have affected the incomes of

Figure 4.2.1: Child poverty headcount ratio (P_0) under three scenarios (BAU, moderate and severe), 2007–2011

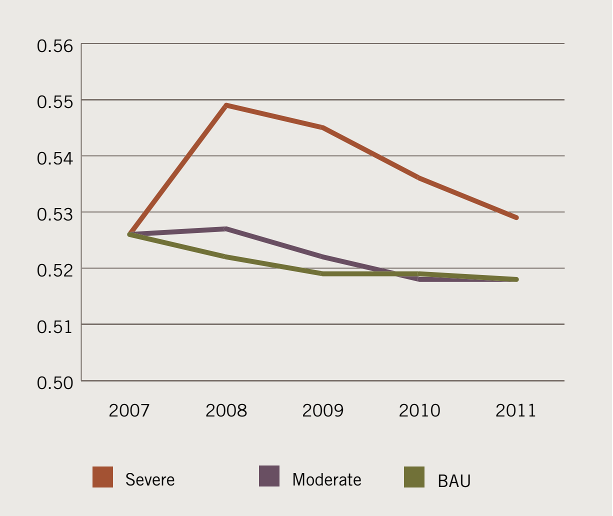


Figure 4.2.2: Cumulative density functions for child poverty in the moderate scenario, and a comparison with the beneficial effects of the child support grant, 2007–2009

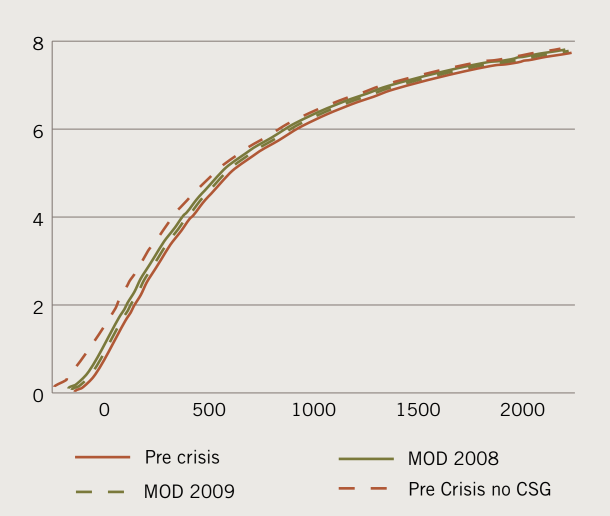
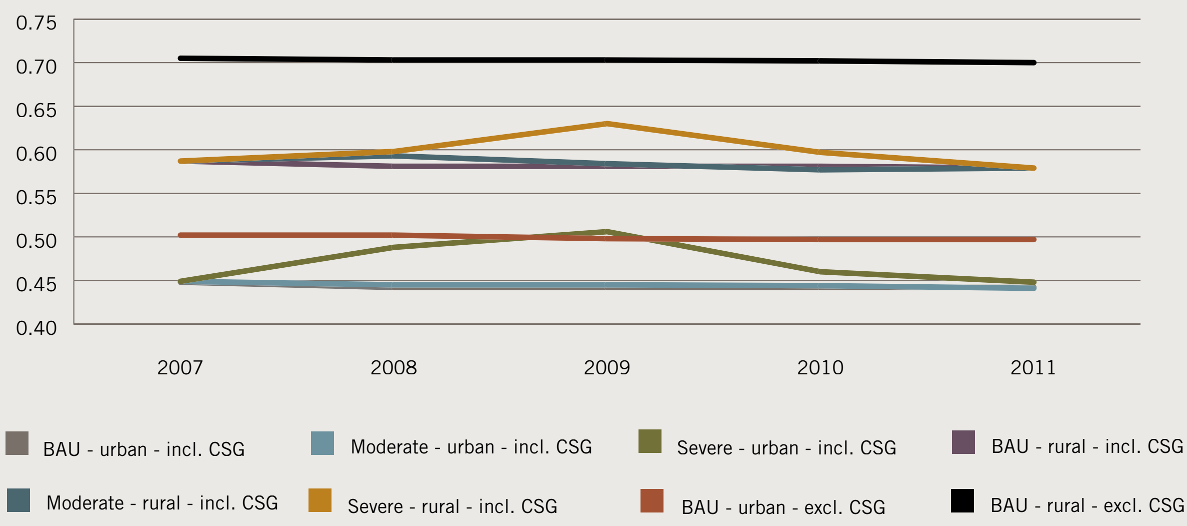


Figure 4.2.3: Child poverty headcount ratios (P0) by urban-rural split and according to scenario, 2007–2011



the non-poor most severely. This is evident in Table 4.2.7, which highlights the lower dependency of poor households on labour market income compared to the non-poor.[9] Similarly, poor households' main income source – social grants – should not have been affected by the crisis. However, the table also reveals that the dominant portion of poor households' labour market income is comprised of money earned in unskilled and semi-skilled jobs. The latter categories were the most sensitive to job losses during the crisis. The bulk of income of the non-poor was derived from highly skilled jobs, which were not severely affected by the crisis. As a result, the non-poor were relatively secure during the crisis, compared to those who were already poor. The implication is that, despite the mitigating role of grants (as seen in Figure 4.2.3), the poorest children, and particularly those in rural areas, were most affected by the financial crisis.

Despite the mitigating role of grants, the poorest children, and particularly those in rural areas, were most affected by the financial crisis.

Table 4.2.7: Sources of income of poor and non-poor households before the crisis

	Poor households	Non-poor households
Labour	42.6%	77.2%
Social grants	47.8%	6.4%
Interest & dividends	0.1%	1.4%
Remittances	7.7%	5.0%
Other	1.9%	10.0%
Total household income	100.0%	100.0%
Informal	13.5%	3.4%
Unskilled formal	23.5%	3.4%
Semi-skilled formal	55.6%	41.3%
Skilled formal	7.4%	51.9%
Total income from labour market	100.0%	100.0%

Source: Own calculations using NIDS (2008).

CONCLUSION

Child poverty in South Africa is high and continues to be a source of grave concern. Against this background, the introduction of the CSG should be regarded as one of the more significant developments towards the improvement of the livelihoods of marginalised citizens in post-apartheid South Africa.

This article has shown that the recent financial crisis impacted on household poverty directly through a reduction in employment, and other drops in household income. Children, in turn, were the worst affected as a result. The research pointed to the fact that declines in income were more severe for informal workers who did not have the protection of an effective wage floor that unions provide, but employment losses in this sector were not as severe as in others. In this regard, unskilled formal sector workers were the worst affected, suggesting that poorer households (relative to those with skilled workers) would lose large parts of their incomes. This represents the greatest direct impact of the crisis on child poverty.

Firms, whose incomes and savings decreased tremendously, also suffered significantly during the crisis. Inevitably, this was transmitted to households through reductions in employment, and it may be argued that a more flexible wage regime would have been able to mitigate some of the impact.

The combination of macro- and micro-modelling in this study shows that the impact of the economic crisis did not completely reverse the positive impact of CSGs. Should these grants be removed, hypothetically, the effect would be far bigger than the shock of the economic crisis. It is evident that the economic crisis did have an impact on monetary poverty in South Africa. Although the moderate scenario shows a limited impact, it was felt most acutely by the poorest households. In the case of the severe scenario, the impact was much greater and again it affected the poorest the most by far.

How likely are the two scenarios discussed? It appears, from present knowledge, that the moderate scenario may reflect the course of the international economy better than the severe scenario. Further, it appears that the economic impact of the crisis has been less acute than the severe scenario indicates. However, the actual local employment losses (in excess of 1 million jobs during the recession) are considerably worse than the model simulates under the moderate scenario. This may be the result of even greater wage rigidities (increasing wages during an economic crisis) than allowed for in the macro-model. As a result, the poverty estimates under the moderate scenario represent a lower bound, while those under the severe scenario represent an upper bound. In the first case, we estimate that child poverty returns as early as 2010 to levels that would have prevailed had the crisis not happened by. This adjustment takes much longer under the severe scenario. Poverty headcounts will, however, not be far from counterfactual levels by 2011. Under this scenario, there is also no indication that the severity of child poverty will be relieved entirely, which suggests that some of the poorest households have been pushed into poverty by the crisis and, for this group, the phenomenon is less temporary than the overall figures suggest. As a result, the poorest households are not necessarily shielded against the permanent impacts of the crisis, and it is likely that this group will not recover speedily.

NOTES

1 This level, though somewhat arbitrary considering the equally arbitrary choice of the poverty line, can be seen in the context of findings based on earlier data sets that used similar poverty cut-offs. The National Institute for Economic Policy (NIEP) measurement study (1996), which is based on the Project for Statistics on Living Standards and Development (PSLSD) of 1993, and which used the old Organisation for Economic Co-operation and Development (OECD) Adult Equivalent Scale (AES), found the poverty headcount amongst children aged between birth and four years of age to be 60 per cent. Woolard (2002), using the 1999 October Household Survey (OHS), a welfare indicator of adult equivalent income and a Cutler and Katz (1992) type AES with the child cost parameter set at 0.6 and economies of scale parameter at 0.9, found it to be 59.2 per cent amongst children aged between birth and 17 years and 59.3 per cent amongst children aged between birth and six years. Thus, the poverty findings here are not all that different from those in previous studies, whereas there is somewhat less child poverty if the suggested Statistics South Africa poverty line is used.

2 The SAM has 54 activities and 54 commodities; two factors of production, labour and capital; four agents (households, enterprises, government and the rest of world); and two accumulation accounts (change in inventories and gross fixed capital formation). Other parameters used for the CGE model are obtained from Gibson (2003), Behar and Edwards (2004) and from the literature surveyed by Annabi, Decaluwé & Cockburn (2006).

3 Factor supplies are fixed in the first period. After that, the labour force grows at the same rate as the population, and an accumulation equation is used for capital (Jung & Thorbecke 2001). Transfers between institutions and government consumption in volume are fixed at the base year and then grow at the population growth rate. The rest of the world's savings are modelled as a fixed proportion of GDP. The production function assumes constant returns to scale and is presented in a four-level production process.

4 The BAU scenario is a simulation of what would have been had the crisis not happened at all.

5 This is a poverty line often quoted in the literature. The 'lower bound' poverty line of Statistics South Africa of R322, quoted by Woolard and Leibbrandt (2006) and derived by Hoogeveen and Ozler (2005), is about 30 per cent higher. The 'upper bound' line of R593 per capita per month in 2000 is about 140 per cent higher.

6 Note that the scale of Figure 4.2.1 has a small range, so that the impacts are small, as are the differences between the scenarios.

7 The cumulative density functions show whether poverty dominance occurs or not. That is, the further up (or left) the curve is, the poorer the population. If this holds true at all points along the income distribution, then poverty conclusions are invariant to the poverty line that is chosen.

8 Results are omitted, as the conclusions are similar to those for the entire population presented in Table 4.2.6.

9 Recall that this is the main transmission channel of the crisis to households.

APPENDIX

Table A1: Sectors grouped according to severity of the impact of the crisis

Group	Sectors	Number of sectors
Group 1: Non-affected sectors	Beverages & tobacco; Food; Gold & uranium ore mining	3
Group 2: Weakly affected sectors	Agriculture, forestry & fishing; Footwear; Furniture; Leather & leather products; Paper & paper products; Textiles; Water supply; Wearing apparel; Wood & wood products	9
Group 3: Mildly affected sectors	Air transport; Basic non-ferrous metals; Building construction; Business services; Catering & accommodation services; Communication; Community, social & personal services; Basic chemicals; Electricity, gas & steam; Finance & insurance; Glass & glass products; Medical, dental & other health & veterinary services; Metal products excluding machinery; Non-metallic minerals; Other industries; Plastic products; Printing, publishing & recorded media; Other chemicals & man-made fibres; Railway transport; Road transport; Rubber products; Water transport; Wholesale & retail trade; Transport support services; Transport via pipeline	31
Group 4: Strongly affected sectors	Basic iron & steel; Coal mining; Coke & refined petroleum products; Electrical machinery; Machinery & equipment; Motor vehicles, parts & accessories; Other mining; Other transport equipment; Professional & scientific equipment; Television, radio & communication equipment	10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CHAPTER 1

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Transformation Audit

2010 Transformation Audit **Vision or Vacuum?**

Although the global recession has come and gone, the world economy still finds itself in crisis at the end of 2010. As the United States returns to growth in the wake of a sub-prime crisis that contaminated the rest of the global economy, trouble in the Eurozone is likely to prolong the sluggish global recovery.

As a result of the crisis, the South African economy shed 1.1 million workers between the fourth quarter of 2008 and the second quarter of 2010, and the trend continues unabated. Compared to the more subdued impact on the labour markets of its peers, which experienced larger declines in GDP growth, the extent of job losses should be of significant concern. The impact of the crisis stretches far beyond the labour market, and affects the most vulnerable disproportionately.

The recession has reminded South Africans, once again, of the structural weaknesses in their economy, which render it highly vulnerable to temporal shocks. This certainly demands critical reflection on the current composition of the economy, its governance and longer-term capacity to create a more just and equitable society. The 2010 Transformation Audit's theme – *Vision or Vacuum?* – sets out to pose critical questions in this regard. While acknowledging the constraints inherent in the prevailing global environment, this edition asks what the country can do to sustain its developmental achievements amidst crises.

The contributions to this edition look at this challenge from the perspectives of the Audit's four focal areas and provide insightful analysis, which is sure to enrich public debate on a longer-term vision for the South African economy.

The audit is a revolutionary idea, because it is an audit of national performance, not a performance audit of government, or of one or other organisation, but rather it questions how we, the South African society, are doing.
– Mamphela Ramphele

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